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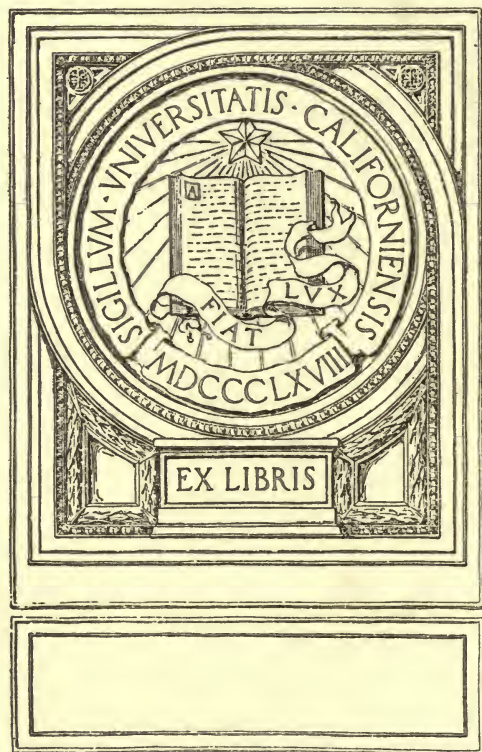


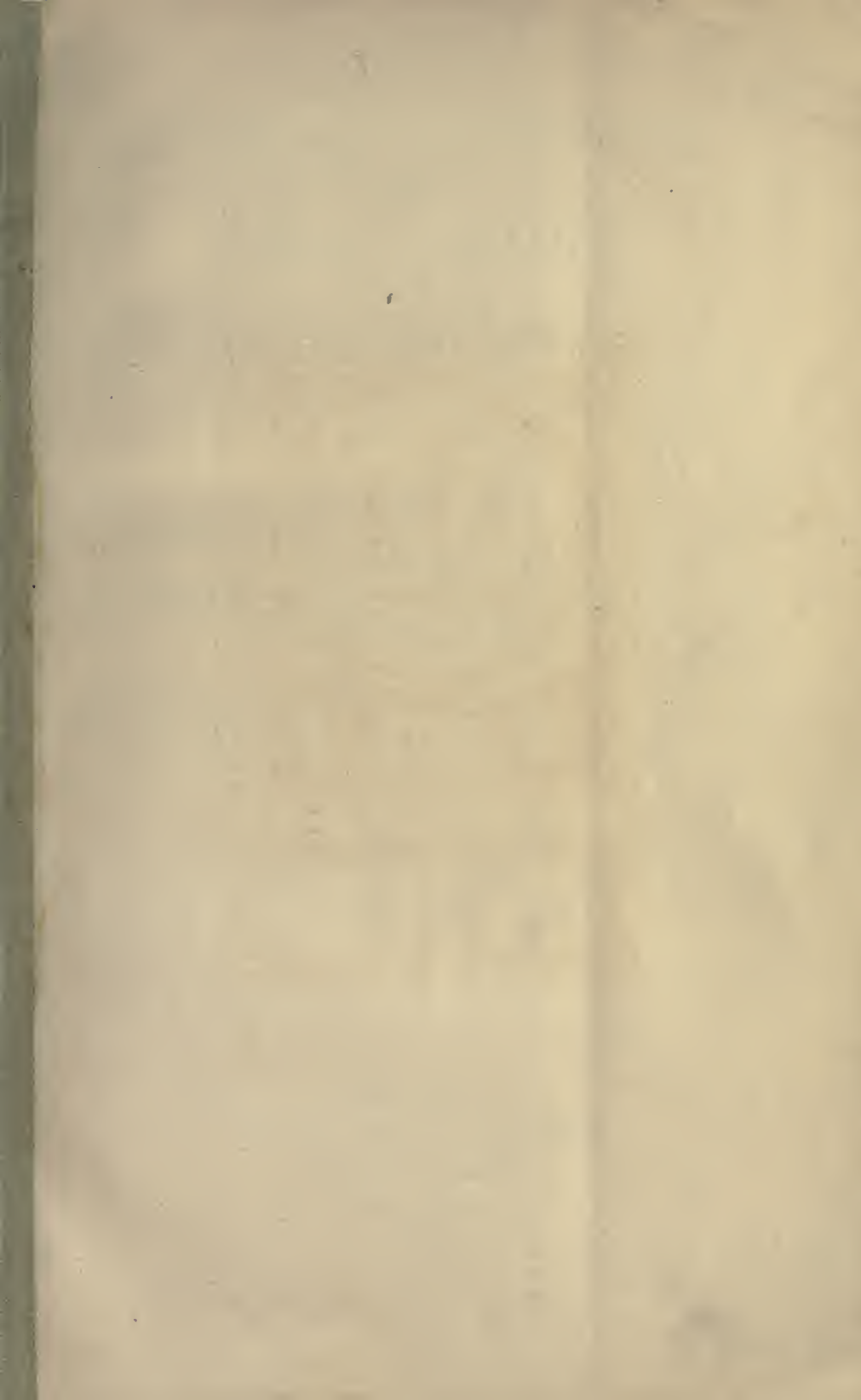
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GOVERNMENT OWNERSHIP OF PUBLIC UTILITIES

LEON CAMMEN

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GOVERNMENT OWNERSHIP
OF
PUBLIC UTILITIES
IN
THE UNITED STATES

BY

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PREFACE

The purpose in writing the present book has been to analyze the factors involved in the question of Government ownership of public utilities. The writer tried to convey his conviction that the question of Government ownership of public utilities and especially railroads in the United States is essentially one not of railroad management and operation itself, but of general economics and politics. To his mind, Government ownership of public utilities means absolute Government control not only of the industries but also of the politics in the various States and in the Union generally.

It means practically, if not formally, abolition of our democratic institutions and of the very spirit of democracy, and substitutes for the rule of the people, for the people, and by the people, an autocracy of the central government.

It means abolition of the present division of the country into forty-eight sovereign and independent States, and reduction of the States to simple electoral districts, as well as loss by the States of their rights to tax railroad properties within their boundaries as an exercise of their right of sovereignty.

It means also forcing into politics our great corporations, and introducing a spirit of corruption and political subserviency at a time when the spirit of militant democracy is awakened in the land by the events of the past four years.

It means also giving one of the most potent arguments into the hands of the extreme socialist groups and thus reinforcing the sinister cohorts of enemy and Bolshevist propaganda.

The writer desires to make it perfectly clear that at no time does he wish to imply that advocates of Government ownership are harboring such intentions as abolishing the democratic institutions of this country or assisting the enemy in his vicious endeavor to disorganize and destroy our nation. In a matter of national life, however, it is not the intentions that count but the facts, and it is with facts and not intentions that the author of the present book has tried to deal.

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INTRODUCTION

The question of operation of public utilities by the Government in the United States cannot be considered entirely from the same standpoint as that of similar operation of public utilities in the various European countries.

In the first place, the entire structure of industry in this country is vastly different from that prevailing in Europe. The scale on which industrial operations are carried on is far more tremendous than anything seen on the European continent. To quote but an example: The Edgar Thompson Works of the United States Steel Corporation roll more rails in a year than the whole of Europe combined, with the exception of Great Britain.

In the second place, the conditions of industries in the various sections of the country are far more liquid and unstable than anywhere in Europe. Such things as the creation of the immense city of Gary, Indiana, in a couple of years, the marvelous development of Detroit in the last 15 years, are so essentially American that they would be called by such a name if they could occur in England or Germany.

In the next place, the scale of operation of public utilities, in particular, of railroads, is incomparably greater than that of Europe, not only in the extent of the country and variety of conditions, but in the length of mileage and especially the volume of traffic. It is no exaggeration to say that the United States has actually more miles than the whole continent of Europe combined, and that in usual time it has several times more traffic than the rest of the world outside of this country.

Another point of difference between American and European conditions lies in the fact that not only is American traffic vastly more extensive, but it is also far more diversified in the sense of both nature of the traffic and operating conditions. Furthermore, it covers everywhere a growing country with an expanding industry. In Russia where the territory covered is even larger than in the United States there is a really dense traffic of both local and through nature over not more than 20 per cent of the area. The traffic in the Caucasus, Turkestan and Siberia is essentially of a transcontinental

nature, which is evidenced by the fact that over thousands of miles of railroads in these sections there are scarcely any feed lines. In Germany where close to 80 per cent of the traffic is of commercial density the area covered is quite small and fairly uniform in both geographic and economic respects. It is only in America that we have a dense industrial traffic in the East, the combined industrial and agricultural load in the Middle West, heavy agricultural load with growing industrial traffic in the South, and the most difficult conditions of operation with nevertheless growingly heavy loads over the broad belt of trans-continental divide. Then there is a dense and growing traffic of the Northern and Pacific states. Such a diversity of operating conditions with the ever present problem of making the means of transportation catch up with the industries of the country makes the management of the entire system a task for intellectual giants, and since one cannot always insure the availability of such giants it rather renders the entire proposition practically hopeless.

This does not end the important points of diversity between American and European conditions, as the most important of them remains yet to be mentioned. And that is, the difference in the characters of the people. In Europe, even in England, the people have been, to a certain extent, always accustomed to look up to the ruling classes or the government for guidance in their larger affairs. Therefore the idea of state ownership of public utilities comes rather naturally to Europeans. Besides, it well agrees with the general idea that the regulation by the government of public utilities due to the extremely restricted terms of franchise where private ownership exists, creates a situation where there is more of a distinction than of difference between public and private ownership. For example, in Russia under the czar régime the Ministry of Ways and Communications had the absolute right to regulate all conditions of operation of the railroad, both technical and administrative. The Ministry of Finance, through one of its departments, told the railroads where to buy rails and how much to pay for them. Another department regulated the rates in such a manner that the railroads did not even have any formal right to protest against the establishment of any of such rates. Under these conditions very nearly the only thing that the private companies could do was to determine a day for their annual meeting, and quite often even that was regulated by statute. But the Russian people found such an interference by the government, which interfered equally thoroughly in

every other walk of life, quite natural. American people are supposed to have been brought up in a spirit of self-reliance and would have to be taught the entirely new idea that it is the Government that should run the country for them.

This point is of great importance, because institutions affecting the life of the nation can survive only if they are in basic accord with the psychology of the people, or if they are imposed on a people by force. As it is not expected that force will be used to impose government ownership of public utilities on this country and as it is obvious that the spirit of the enterprise is not in accord with the psychology of the people, it is equally obvious that government ownership, even if established, could not survive. You can bring a horse to the trough but you can't make him drink unless he wants to. Of course, once in a while you may use a stomach pump but then the results are seldom pretty to look at.

There is one more point which has to be considered in this connection, which is rather a point of similarity with Europe than a point of difference, and yet there is a difference in it too. It is that, to speak frankly, the Government of this country has never enjoyed from the point of view of business acumen and efficiency, the confidence of the people. The similarity lies in the fact that the same situation existed in Europe; the difference, however, and it is an important difference, lies therein that in Europe the people as a whole had neither the education necessary to realize it, nor sufficient freedom of press to express it, while in this country it is an established rule in the courts that a man in public life must have a thick skin to be able to stand what the people say about him for the simple reason that he is in public life. In other words, the popular presumption about a man in politics is that he did not go into it, using a slang expression, "for his health," but for motives and reasons which he would not care to acknowledge publicly.

While there is no doubt that a number of men in the upper walks of political life who have gone into politics solely for the good of the people is rapidly increasing and while politics have a tendency to grow cleaner and cleaner in America, the question as to the efficiency and business acumen of the Government is still a very open one. The general impression is that the Government carries on its business in a wasteful and inefficient manner. The accountancy of the Government is always involved and never as clear and frank as that of ordinary big business concerns. The salaries paid are often woefully inadequate and often excessive, with the result that certain men get

much more than they would ever hope to get in commercial lines; others, especially in the lower positions, are badly underpaid, and, in general, the conditions of service and salaries are such that the best men, in the sense of men of the highest efficiency, can practically never be kept in the Government service. It is a significant fact that even before the war numbers of men who made their mark in government service had been enticed away by private concerns at salaries sometimes five to ten times as high as those which the same men would ever hope to get in government service. To cite but one or two names it is enough to give Theodore P. Shonts and Frank A. Vanderlip. In fact, it appears that the Government can keep only those who are too indolent to breast the gales of commercial life, or who prefer eight hours a day, civil rules and a five-room flat to taking chances on making good in a really big way in competition with other red-blooded men. And this is not the kind of men who can be entrusted with the operation of the vast American system of public utilities.

In this book it is intended to present a general discussion of the question of government ownership of public utilities in America. While the writer is not exactly in sympathy with government ownership as applied to this country, he desires, nevertheless, to make it perfectly plain that he realizes the existence of certain arguments in favor of it and proposes to consider them. As a matter of fact, there is seldom an important social question which can be raised without there being something in favor of it. The Church in the Middle Ages used to say that even the devil could have offered a very good argument for himself were he admitted to court.

However, it is the belief of the writer that in the first place the advantages of government ownership cannot counterweigh its great and manifold disadvantages, and in the second place that the majority of advantages of public ownership can be very well materialized through a system of government regulation as differing from straight government ownership.

GOVERNMENT OWNERSHIP OF PUBLIC UTILITIES

CHAPTER I

INDUSTRIAL CONDITIONS IN AMERICA

After all, the railroads are not an industry in themselves, but simply one of the tools of the national life. It is only military railroads or little experimental tracks that are built for their own purposes; all other railroads are built to serve existing industries or industries which are expected to grow up in the section through which the railroad passes.

It is extremely important to realize this fact which quite often escapes observation because of the vastness of the interests represented by the railroads themselves. To an ordinary man it seems strange to hear that an investment of, say, \$20,000,000,000 represents nothing but an auxiliary feature of the national life. And yet if there were no farms, shops, forests or mines in the country the railroads could operate their trains for a while, but they certainly could not meet their bills or payrolls. In fact, under such conditions they would have absolutely no reason for existence, because the only thing that the railroad does is to transport freight or passengers delivered to it from the outside.

When, therefore, we consider a railroad system, we must consider it, in the first place, not as an individual unit capable of its own existence, but as a part of the industrial life of the country which it is intended to serve. Any railroad organization which cannot properly serve the section for which it is built is a failure, no matter how wonderfully it may be constructed or how beautifully it may be operated. The Gould railroad leading into Pittsburgh was a failure not because its directors were inefficient or because its rolling stock was poor, or because its train management was inadequate. It was a failure for the simple good reason that after it was built it was found

to be unable to transport the goods for the transportation of which (the Carnegie contract) it was built.

It would have been a very simple proposition to build the most beautiful railroad from the point of view of straightness of line and ease of operation, provided only it did not have to think about freight and passengers. When the Nicholas railroad was projected between St. Petersburg and Moscow, the then Emperor, Nicholas I., laid his pencil on the map between the two towns and said, "Thus shall the railroad pass." It did, and up to now is one of the most expensive railroads in Europe and one of the poorest from the point of view of both financial and economic returns.

To a certain extent this instance may be considered unconvincing as we may be told that it is only in Russia that the whim of a despot will decide an economic question, and yet during the period of government operation of railroads, we have seen a vigorous effort to deflect freights from their established channels into new channels, often practically putting certain sections of the country out of business. To cite but an example — the usual coexistent traffic between, say, Omaha and Chicago through the Northwestern and the Chicago, Milwaukee & St. Paul has been artificially concentrated on the former leaving the towns and the population along the Chicago, Milwaukee & St. Paul to pray for a return to private ownership or for a quicker development of transportation by aeroplane, provided this latter did not also become a government monopoly.

Of course, from the point of view of pure railroad operation the ideal thing would have been to string out all the cities and factories and farms of these United States of America along one line from New York to San Francisco and carry all the freight over that line. Whenever such a thing has been approached in practice (as on the Canadian Pacific, the Trans-Siberian Line and the Indian railroads) conditions of operation prove to be very easy, financial returns splendid and the railroad operating at about 30 to 100 per cent overload capacity. That such a thing can be done (and then only for a time) only in countries in the initial stage of economic development is, however, "the fly in the ointment" which spoils the whole reasoning. Unfortunately for the defenders of a centralized system of transportation which is a basic feature of government ownership everywhere, the United States of America has already passed through that initial stage of economic development and is now in the stage of intensive production requiring a flexible and uniformly intensive transportation system.

An essential characteristic of the American industry is that its chief market lies right at its doors at home. In England and Germany the home market forms only a small percentage of the consumption of the main manufacturing industries—in England because the country is comparatively small and in Germany because the purchasing power of the population is low. In the United States we have a population of 100,000,000 as well as the greatest per capita wealth in the world.

While export from now on will probably take a greater part in the industrial life of the country than it did heretofore, there can be no doubt as to the home market still remaining the main consumer of American produced goods.

As regards railroads, this distinction is of great importance. When industries are working for export the movement of goods tends to concentrate along two or three trunk lines, either to main ports or to the main entrance into foreign countries, and this simplifies the entire scheme of railroad transportation. It also very materially affects the attitude of the Government towards the movement of goods.

European governments have always vigorously favored exportation of goods, either as a means of extending their political power or as a means of maintaining a favorable trade balance; the first applies to the case of Germany and the second to that of England and Russia.

With this in mind the European governments have in many instances offered bounties to exporters of products or special low rates, or favored exportation in various open or concealed other ways. It is obvious that under such conditions a special effort would also be made to promptly move goods from the factories towards the ports of embarkation or places of exportation.

The situation is, however, entirely different with respect to domestic trade. In the first place, domestic concerns, instead of moving in one or few given directions, practically radiate every way and thus develop a strain over the entire system of transportation facilities. To a man doing a national business, say, from Michigan, the road to Kansas and Colorado is just as important as that to New York; while to a man with a factory in Berlin and 90 per cent of the stock sold outside of Germany only the road from Berlin to Hamburg or Berlin to Bremen is of real interest.

Another point is that with domestic trade the Government is not directly interested in specially improving transportation. In fact, the tendency is always rather to the effect that the Government is running the railroads and its business is to run the railroads. A

manufacturer has to take the railroad system as it is, or, rather, as it is convenient for the Government to run it, and arrange his business in a manner to fit with the existing system of railroads. If a manufacturer complains he is told that every other manufacturer in the country is "in the same boat" as he is, so no special suffering is imposed upon him and there is no special reason for listening to his complaint.

Government ownership of railroads has primarily no incentive to make itself sufficiently flexible to meet the requirements of domestic and especially local concerns, and that is why, from this point of view, it does not seem applicable to American conditions.

The same situation will be considered from a somewhat different angle elsewhere in this book.

CHAPTER II

FLEXIBILITY OF RAILROAD OPERATION

In European countries industries develop comparatively slowly, which is only natural and due to several reasons. In the first place, capital is comparatively timid over there and does not go into very large investments with the same ease that it does here. In the second place, the amount of investment capital available is much smaller than in this country and a great share of what there is prefers to go into "fixed interest" securities, such as government, railroad and municipal bonds, rather than take the greater risk of straight industrial investment. Finally, the purchasing power of the nations is, comparatively, so low that industries have to grow up slowly.

In this country the situation is just the opposite. If anything, American capital is rather too venturesome than too timid, as witnessed by the hundreds of millions of dollars lost every year in worthless investments. Next, American business men living in these big United States of ours have grown accustomed to carry on business on a very large scale. Finally and most important of all, the purchasing power of the population is so great that a product which will appeal to popular fancy or satisfy a popular demand can at once be produced in extremely large quantities. There is hardly a better illustration of this condition than the marvelous growth of the automobile industry, which, in less than 20 years, developed into an industry with an output, counting all automotive products, of close to a billion dollars a year.

Another important feature of American industries is due to the natural characteristics of the United States. The Lord Who kept this continent concealed from the white man until he was ready to come and settle on it has endowed this land not only with a hardy and adventurous population, but with untold riches in natural resources both above and below the ground. There are other countries with population as active as the United States, for example, England and Scotland. There are also countries with natural resources as great as found in this country, for example, Russia and Mexico. But the United States of America has been so far the only land

combining a great and enterprising population with great natural resources.

We see the results of it every day. In a period of a few years whole immense territories are transformed from agricultural into industrial units. There have been so many examples of it that perhaps one of the latest would suffice as an illustration, and that is the great economic transformation going on in the State of Oklahoma, which in only a couple of years has been transformed from a series of peaceful Indian reservations into one of the greatest producers of oil. What has happened in Oklahoma has also happened and is still happening in Minnesota, Louisiana, Texas, California, and, in one way or another, in nearly every state of the Union.

The American industry is never standing still: Great mining districts are opened up, exhausted and left alone. Industries are established, grow up and then die out as other places take them up under more favorable conditions. A man who would pretend to foretell the conditions in a place in the United States for the next 25 years would have to have more confidence in his judgment than is perhaps wise to have.

The railroads have to keep pace with the shifting conditions of industry all the time. If a new oil well is opened in Oklahoma or a man in Vermont has begun to manufacture a new toy or a company has been formed in Arkansas to mine a new mineral, they all have to have transportation facilities in order to bring their products to market rapidly and cheaply, and here is where government ownership must necessarily be weak.

Under private ownership the management is concerned only with a certain section of the country, in the majority of cases one of comparatively limited extent. As a result the management is enabled to know its section of the country thoroughly and decide on the necessary improvements from first-hand information and with a thorough understanding of the local conditions. Also, under private ownership the companies are anxious to develop their business. Since in a good many cases each locality or enterprise can be served by more than one railroad, each company will make an effort to help out a promising enterprise in order to prevent its falling into the sphere of operations of its competitor. The industries know it and usually select a place where they would not be dependent exclusively on the good will of one company.

Under government ownership, however, the situation changes entirely. In the first place, the whole process of getting the Govern-

ment to agree to build an extension of a line, double track a line, or provide a special branch or loading facilities will necessarily involve a good deal more red tape than is the case with private companies. This is inevitable because of the system of controlling all government expenditures, and is, in fact, desirable in itself to protect the taxpayer from wasteful use of money and possibly from various forms of favoritism. While however desirable from this point of view it does not help the industries which need facilities and have to wait for them until the tedious process of unwinding the red tape in the local, regional and Washington offices has been completed. From general experience with government departments it is safe to say that it will take, at least, from five to six times as long to secure (without special political pull) special accommodations as it would with a private company.

In the next place, under government operation the men at the head will have to deal with the entire country, and this condition makes it impossible for them to know even approximately the facts of the case in each particular instance. To take as an example, Mr. Wm. G. McAdoo, who represents certainly the very highest class of director general of railroads that the country can expect, and yet Mr. McAdoo's railroad experience was limited to the shores of the Hudson and, perhaps, a few trips in Georgia. There is not a man in the country today who knows the whole of the United States as well as, for example, Mr. Ripley knows the territory west of Chicago and as Mr. Rea knows the States served by the Pennsylvania Lines.

Of course, we may be told that under government ownership there will be regional directors, corresponding to the present heads of the great transportation companies and that these regional directors will be experts in the needs of their respective territories. Such a system sounds quite attractive at first glance and yet is a vastly vicious one for this reason — the final decision as to all important improvements will lie not with the regional directors, but with the director general in Washington, or some body corresponding to the Interstate Commerce Commission. Therefore, the persons who know the business will have no power of decision and hence no responsibility and the power of decision will lie with those who admittedly do not know the rights and wrongs of the case which they decide, and therefore again cannot be held responsible for their decision. Private ownership is based on the principle of individual responsibility. Government ownership will be carried on under the great sign of "passing the

buck," which is not the Sign of the Zodiac corresponding to the Month of Success.

Then again, the attitudes of mind of the two systems of ownership towards improvements are very different. The private company, if properly conducted (and from this point of view practically all great railroad companies have been properly conducted in this country) looks for a chance to make improvements, either in rolling stock, methods of operation, safety of traffic and especially opening up new fields of activity. A private company is compelled to do so, because with very few exceptions it does not have a monopoly of transportation and unless it gets a hustle on and does something to secure business, its rivals will do it. The industries in this country shift with such rapidity that if a company proves disobliging or gives poor service, it will rapidly find itself deserted. Therefore, every private company is doing its best to attract industries within reach of its tracks. It is helping them in as far as it reasonably can and gives them all facilities possible.

The Government's attitude will of necessity be quite different. In the government service a man who hustles too much is, since the beginning of the existence of governments, always considered a nuisance and a possible danger. It is only the man who attends strictly to his job and who does not make trouble for his betters by suggestions of improvements that gets to the top of the ladder, if the Lord spares his days.

Anyway, if he is not an out-and-out genius (or the favorite nephew of an important senior senator) and still tries to introduce important improvements he takes his official life in his hands every time he does so. If he succeeds he is often deprived of the credit of his initiative and if he fails it will never be forgotten.

Let us say that John Smith wants to start a new shoe factory somewhere out in Jersey. The Pennsylvania, the Baltimore & Ohio and the Erie are within fairly close reach. As soon as these companies find out what John Smith has in mind, their solicitors will call on John Smith and tell what they can do for them, and each will try to do his best for John Smith because it needs his business and because it knows that if it does not get his business, this business will go to its rival.

Now imagine for a moment conditions under government ownership. The regional director does not care very much about John Smith, because whether John Smith puts up a factory on the Pennsylvania, the Baltimore & Ohio, or the Erie his business will go to the

Government anyway. Therefore, instead of going to John Smith the regional director will wait for John Smith to come to him, which at once establishes a very different state of relations between the two parties.

Then again he is not at all anxious for John Smith's business — of course, more business more profits — but also, more business more trouble. Therefore, if John Smith wants to do business in the way to bring profits to the lines and to cause no trouble he will be *permitted* to do so, but if John Smith wants special facilities it is a "horse of an entirely different color."

The private company is meeting emergencies every day and has come to consider it part of its day's work. The Government is entirely unequipped for the meeting of emergencies and everybody in the service all over the world hates situations where emergencies have to be met, because that means added responsibility and increased possibilities for trouble.

If John Smith's business needs special accommodations or is of such a nature that it may lead to emergency service, it is but natural for the regional director to ask himself why he should incur such added responsibilities and why he should go to extra trouble to oblige John Smith in whom and in whose business he has not the slightest interest.

The regional director is appointed to run the railroads, and his business is to have them operate as smoothly as possible. If he can show an increase in traffic, well and good, but he will not lose his job even if the traffic should remain stationary or indeed decline simply because it would be impossible to prove that it was the business methods of the railroad administration, and not acts beyond its control that have brought it about. The experience of the past has been that the volume of business in the country in all normal years has a nearly irresistible tendency to grow, so that if the railroad administration just lets things take their own course, the statistical results of operation will be most likely quite gratifying.

On the other hand, any effort to adapt the service of the roads to the needs of the industries is likely to lead to trouble, and at best will force the regional and local administration to accept the responsibility for something which is not absolutely necessary to the attainment of the great goal in life of all those who hold political or semi-political appointments, viz., the holding of the job.

Under these conditions the natural tendency for the regional director and his assistants will be not to try to adapt the railroad service

to the needs of the industry, but to expect the industry to adapt itself to the convenience of railroad operation. This is a clear instance of the "tail wagging the dog," and it is difficult to see how the dog can prosper if it is wagged by the tail all the time.

A statement has been made above to the effect that government operation is not of such a character as to enable it to meet emergencies promptly and efficiently. This has been illustrated by the entire course of war both in this country and abroad. This is all the more striking as in war times it is particularly easy to meet emergencies, (1) because under war conditions a far greater freedom of action was allowed to the officers of the Government than would be granted in peace time; (2) the question of cost was of only secondary consideration, time and results being of prime importance; (3) the officers of the Government enjoyed exclusive rights which they would not have in peace time, such as that of priorities in execution of work and in commandeering private property; and finally, the whole country in its patriotic fervor was at the beck and call of the Government.

Nevertheless, and notwithstanding all these unusually favorable conditions which would never be approached in ordinary times, the Government absolutely failed in meeting practically every great emergency promptly and efficiently.

In the camps men were brought together before either equipment or hospital facilities were ready for them. The Ordnance Department failed to make prompt deliveries either of rifles for training purposes or of light artillery for the first fighting units overseas. The Emergency Fleet Corporation project in the first month of its existence was handled as if it were a "Sometime-or-Other" Fleet Corporation. In the aviation program months were lost in ill-considered and misdirected experimentation on matters which were perfectly well known to experts both in this country and abroad. The Fuel Administration met the great fuel shortage by a prohibition to use fuel, which is like cutting off a man's head to cure him of stomach trouble.

In all of these fields, ultimately, great and highly creditable work has been performed, but only after much loss of valuable time. Therefore, while the Government ultimately succeeded in placing at or near the firing line the great man-power and industrial resources of the country, it did not do it in the way of meeting an emergency but as a result of a long process of development. Had not the position of Germany in 1917, when we entered the war, been such as to absolutely preclude its ability to directly attack this country, the history of the war, through the failure to meet an emergency in an

emergency manner, might have been very different indeed. This is a highly important feature in railroad administration, because the ability to meet emergencies effectively is of prime importance, and to give the railroads into the hands of an organization not suited to the meeting of emergencies would create a condition highly dangerous for the national industries.

CHAPTER III

THE MEN TO RUN THE PUBLIC UTILITIES

There is one feature of all government operation which must be thoroughly understood in connection with the question as to who will be the men who will run, for example, the railroads under government control.

The American system is essentially an outgrowth of the system which prevailed in England in the 17th and 18th centuries. In those days the high officials of the government received only nominal salaries, but their positions presented to them many opportunities for personal enrichment, which, under the political morals of those days, were considered to be legitimate. Macaulay tells how the income of the Chancellor of England under Charles II and James II was as high as £30,000 at a time when a pound sterling bought about ten times as much as it does today and he adds that the main sources of this income came from the sale of places, pardons and other favors in the gift of the government. In fact, he tells that whenever a petitioner approached King Charles II he always told him to go and see first My Lord Chancellor and seeing My Lord Chancellor with empty hands was seldom fruitful of desired results. Expressing it in the language of this day, a man went into government service not for the salary that was in it, but for the graft that could be had.

Since then the moral atmosphere surrounding the tenure of public offices has changed both in this country and in England. In England to-day the salaries are still quite inadequate though very much higher than here, but there has grown up there a class of wealthy and public-spirited men who are willing to serve their country. It is, however, well to remember that none of the positions under the crown are of a character involving the handling of vast commercial or industrial resources, with the exception of the Secretary of the Treasury.

In this country likewise the opinion prevails that the salaries of men employed by the Government should be low, with the result that, for example, the Secretary of the Treasury, has a salary of \$12,000 a year, or a good deal less than an important officer in any of the large banks in New York, Chicago or Philadelphia.

It is, however, possible to find a man like Mr. Wm. G. McAdoo, who would go for a period of say four years (the national administration) into a position involving a considerable sacrifice of private fortune. A man may do it because of willingness to feel that he has been connected with great affairs of the nation. He may also have some special plans for the betterment of national life, which he may hope to have materialize through his being in office. Finally, he may think that his years in office may give him an opportunity to occupy a position in industrial life which he would not secure otherwise.

This, however, may apply only to the few cabinet positions, ambassadorships, etc., where the tenure of the office is comparatively short, the work not very exacting (which latter cannot very well apply to the last two years of Mr. McAdoo's service, however) and the position of great social prominence.

It would be practically impossible, however, to find men willing to go into comparatively obscure positions at a personal sacrifice. In fact, there are not so many men who could afford to do so.

Of course, not by bread alone do we live and the dollars and cents which we receive for our work ought not to be the only basis on which we should select our respective walks in life, but most of us have such encumbrances as wives and families, and all of us are looking to the day when we shall not be able to work any more.

Besides the evil that should suffice unto each day, most of us are looking forward to protection against the rainy day, and if in the natural course of life, a man can have two jobs equally useful and equally interesting, one of which pays \$6000 and the other \$60,000 a year, 990 men, at least, out of a thousand will take the \$60,000 a year job.

But it would be very difficult to get the people to agree to pay railroad managers under government ownership the high salaries which they deserve and by which only they can be held permanently in their respective positions, and, moreover, even if these salaries were paid it would be exceedingly difficult to assure that the right men should have them.

This may need a little explanation. Let us talk in figures. Under government ownership a man capable of directing the fortunes of the complicated system of railroads in the United States would have to be a man of most unusual qualifications, of great and varied business experience and of the keenest foresight and business acumen. Such a man (and there are at any time very few of them) could easily command an income of at least \$1,000,000 a year by devoting his energies

to ordinary industrial or commercial activities. He might be secured into the service of the Government at a smaller salary, say, \$500,000 a year. But anyone can imagine the howl that would go up in the country if it were proposed to pay the director general \$500,000 and his assistants, regional directors, etc., say \$300,000 each.

The President gets only \$75,000 a year and why the regional director should not work for the same amount would be beyond the ordinary man.

The worst, however, is that if there were in the grant of the Government a position paying \$500,000 a year, the most likely thing would be that not the man best qualified to occupy the position, but the man highest in party councils would get it. Political appointments and especially the so-called "plums" usually go not to the best qualified man, but to the man with the longest reach. Thus, most of our Secretaries of War and Navy were lawyers or professional politicians, and if a lawyer can be a Secretary of War there is no reason why a lawyer with enough voting control should not be made director general of railroads, especially if a very attractive emolument goes with the position.

To put the matter in a nutshell, we may say that if the Government does not pay enough it will not get the right man, and if it does pay enough it will most likely get the wrong man. Under private ownership a man is paid what he is worth, because if he is not paid what he is worth by one company another company will get hold of him. Then again, unless he delivers the goods he cannot hold his position for very long, because private companies look for results and if results are not forthcoming from one man, they usually have some other man whom they are willing to try out.

There is always plenty of room on top, but there is also a good deal of pushing and jostling and no railing around the platform. So while there is a demand for superior men, unless a man is sure-footed enough to hold his position he isn't going to stay on top very long. In government service a man can stay on top as long as his party is in power by simply doing as little as he must, because a man who does next to nothing makes no mistakes and the man who makes no mistakes cannot easily be pushed out of his job by public criticism.

Herein lies probably one of the weakest points of the entire system of government ownership of great public utilities. Such utilities cannot be run without really big men on top and without good men throughout the whole organization, but the Government cannot get such men and cannot hold them. Witness the stream of men from

government service (Insular Possessions, Ordnance, Navy and Patent Office) into private employ and only an insignificant trickle from private employ to government service.

Of course, we may be told that public spirited citizens will come into Government service by way of service to the people. Unfortunately, we had experience with this class of citizen during the duration of the war and this experience has not been encouraging.

On the whole, the more we learn of the workings of the dollar-a-year men, the less we can approve of it. While some of them have brought to the service of the government knowledge and devotion that could not be secured otherwise, others have continued their connections with the corporations in whose service they were before, and even continued to receive their previous salaries from corporations while serving the government at a dollar-a-year. Furthermore, even the best of them have made a determined effort to get out of government service as soon as the emergency of war was over, thus showing that it was only because of the great national emergency that they have been willing to give up their own business, and go to work for the government for a nominal salary.

As an instance we shall cite Mr. Charles M. Schwab. Here is a man who at a real sacrifice to himself rendered the country a most eminent service, but as soon as the armistice was signed, Mr. Schwab asked to be relieved of his duties. If now Mr. Schwab were asked to take up the position of director general of railroads for the rest of his natural life at a salary of say \$25,000 a year, he would most undoubtedly refuse to do so. And as a matter of fact only very few of the dollar-a-year men who have made good in the war emergency would be willing or able to give up the rest of their lives to irksome and responsible work for the government at nominal salaries.

Of course the government could always find men who would be willing to take the positions of director general of railroads, regional directors, etc., at nominal salaries. But with very few exceptions indeed (this refers to peace conditions only) such men would either seek personal promotion by occupying in the government service positions of far greater responsibility that they could secure in private life, or they would be men willing to supplement their meager salaries in other ways. The cheap man is always the most expensive in the end.

The laws of the United States prohibit free service to the Government. The original law-makers considered that a man employed by Uncle Sam for a dollar-a-year (normal conditions only are referred to

here and not the past war emergency) is either not worth his 100 cents, or will cost the people far more than would a man hired at a regular salary. The job of handling property representing an investment of over \$20,000,000,000 cannot be entrusted to volunteers and that is what it would amount to, unless the Government paid proper salaries. It comes to this. If the Government does not pay the proper salaries it will not get the right men, and if it does pay the proper salaries it will have "vote-getters" rather than industrial experts.

CHAPTER IV

GOVERNMENT OWNERSHIP AND THE PUBLIC

Will Government service be more courteous, more efficient, and in the long run more satisfactory to the public that has to make use of railroad facilities? After all, this is the crux of the whole situation. If the Government can manage to operate in such a way that the shipper would have less trouble in delivering his goods and receiving them from the railroad, if the Government can decrease the time that it takes to move goods from place to place, and if the Government can give the great traveling public better passenger service, the people will be willing to put up with at least some of the disadvantages explained in the other chapters of this book.

From what we know of the Government it is, however, entirely unlikely that such a thing can happen.

The reasons for it are mainly psychological. The average man, cynical as this may seem, has to make an effort to be pleasant to those with whom he is dealing. If left to himself and feeling absolute independence of his brother men, the average human being would like to tilt his chair at a comfortable angle, put his feet on the table, stick the biggest cigar he can get into his mouth and bark short, snappy orders at the world. If John Smith feels that he is his own boss and doesn't have to care a hang for what people will think about him, that is exactly the attitude he will take. He may take off his feet; in fact, go even so far as to take off his hat if Mrs. Judge Brown comes to talk to him, but darn it, he isn't going to disturb himself on account of Tony Galuzzio.

If John Smith is in the employ of a private company he knows that he has to mind his manners and that if he is nasty to Tony, Tony will ship his apples or potatoes over another line, and then he, John Smith, may have to give explanations to the traffic manager.

But under Government ownership John Smith will not have to give any explanations, simply because under Government ownership nobody cares whether Tony Goluzzio ships his apples over what was once the Erie or the Pennsylvania. In fact, if Tony should start shipping his apples by aeroplane nobody would care about that either.

Moreover, John Smith feels now that he is not simply John Smith of the X Company but he is actually a United States officer with a badge, and has the whole power of the Federal Government back of him. Tony Goluzzio who is perhaps not even a citizen has absolutely no standing in his presence and has to take what he, John Smith, is gracious enough to give him, or go hang.

It is a very significant fact that whenever or wherever, the whole world over, men, especially little men, are clothed with power, they are in the first place apt to exaggerate the power which they have, and in the second place, they are apt to delight in letting those with whom they are dealing feel that they have the power.

Some instances have come forward even during the two years of war when power was exercised in a manner unnecessarily harsh, often so harsh as to defeat its very purpose. To cite but two instances, we might call to mind the orders of the United States Fuel Administration and the slacker raids of the office of the Attorney-General.

The Fuel Administration suddenly prohibited the use of fuel in industrial plants and office buildings for a period of five days at a time when the country was intensely organizing its war manufactures.

The order was deliberately given such a short time before it went into effect that the country had absolutely no time to make any preparations to meet this great emergency. No attempt was made to conserve the fuel in ways which would be less drastic and put the public to less inconvenience. The United States Fuel Administration was out for saving fuel and had absolutely no consideration for anybody else; in fact not only as regards the public rights, but even as regards the program of the Government itself in its other branches. Thus the manufacture of aircraft was materially delayed by the interruption created in this manner. No private company would dare to undertake a program of that importance without thoroughly canvassing the situation and without working it out in such a manner as to create as little disturbance as possible. The Government did it.

The slacker raids in New York were but another example of an absolutely ruthless disregard not only of public convenience but even of public rights. It seems that every man between the ages to 21 and 31 who presented himself for examination in the draft had to carry with him thereafter a card issued to him by the local draft board.

There was a suspicion that a certain number of people have tried to evade the draft.

No notice has ever been given advising the draftees to carry their cards with them, notwithstanding the fact that it was very well known

that only few people realized the importance of observing this rule.

On a certain day, without any previous notice to the public, every man coming out of railroads and subways and surface cars on the streets of New York and adjoining communities was stopped and asked to show his card. Unless he looked distinctly below 21 or above 31 and could show such a card, he was arrested, hurried off to one of the armories and held there incommunicado for a period of from several hours to several days.

Men as old as 50 were so arrested. Men were taken from restaurants and theatres, either because in the opinion of the would-be-officers of the Government, they were younger than their actual age, or because they had left their cards at home. Altogether from 50,000 to 60,000 men were put to tremendous inconveniences and even placed in positions deeply humiliating to any decent citizen, all in order to catch some 100 or 200 slackers, and the most significant feature of the whole transaction is that the Government has never fully realized the enormity of its actions. Nobody has ever been made to suffer for this performance, and in fact, the Attorney General to the end vigorously defended its advisability.

If a private company, person or organization arrested 100 men in a room because one of these 100 has stolen his or its property, it would be subject to 99 suits for false arrest and would have to pay heavily. At least it is absolutely certain that such a person or corporation would offer his or its humblest apologies to those whom it inconvenienced and wouldn't say that it didn't care how many it had to inconvenience as long as it recovered its property.

It is a sad thing to say, but nevertheless true, that men who may be perfect gentlemen, considerate of their neighbors in private life, become often blind to all rules of decent communal life when they become officers of the Government, and it would not be a gain to the public to have the great transportation system of the country run on these principles.

Government system of management in so far as it affects the public convenience is well illustrated in the way the Post Office Department is run. If you stop in at any hour in the late afternoon into any Post Office in a large city, you will find inevitably a long row of men standing before the parcel window and the stamp window. The Post Office employees in these two sections are as a rule overworked, tired, rushed, and therefore snappy, which latter is of course no reflection on them, as they simply can't help it.

At the same time you will find a leisurely gentleman thinking of the wicked ways of the world or paring his nails in the money order window and postal savings bank window. He has little to do and can enjoy life and leisure.

There can be absolutely no doubt that if the Post Office were run on the same principle as a department store, in the late afternoon a double sign would be placed on the money order and postals savings bank windows.

One sign would read "Line for stamps forms on this side." The other sign would read: "Line for money orders and savings bank deposits forms on this side." The patrons of the money order and savings bank branches would be served first, and in the meantime there would be less congestion at the other windows.

Any department store would have done this simply because it would immediately realize that patrons who have to wait from 10 to 30 minutes in order to buy a three-cent stamp are placed at an unreasonable inconvenience and would not stand for it in a department store. The department store lives by service, which means by treating the customer right, and it would make an effort to do so by utilizing the partly unemployed men. Any department store manager knows that when one department is rushed he can relieve it to a certain extent by assisting it with help from other departments where at that particular moment business is slack. The Post Office, however, never does such a thing because basically it does not try to please the public. It performs a certain function, the carrying of the mail, in a more or less efficient manner, but it is run on the principle that since the public has no other way to send its mail it might just as well accommodate itself to the ways of the Post Office Department instead of the Post Office Department making an effort to accommodate itself to the reasonable conveniences of the public.

It is also remarkable how strictly the Post Office adheres to the smallest of its own rules.

Anyone who had the experience of having a parcel refused by the Post Office because of apparently imperfect packing, and having it accepted by the express companies (in the days where there were "companies") in exactly the identical packing, knows that it is always easier to deal with a company that wants to make money than with the Government who desires to protect itself against trouble.

The same exemplification of the difference in the attitude towards the public between the Government and private companies may be seen in the recent announcement of the Post Office Department in

connection with the long distance telephone service. In the days when the so-called Bell monopoly was running the telephones, you could call up John Brown at the Brown Works, Alliance, Ohio, and if John Brown was out the telephone operator would tell you so and not charge anything for the call.

When, however, our beneficent Government took over the telephone system, this situation changed at once. Now if you call up the same John Brown you will have to pay for the call no matter whether John Brown was there to answer or not. The interesting thing in this connection, however, is the reason for this change. The Government has found that there were cases where a code would be arranged between two men in distant cities and the message would be conveyed from one to the other by the way the absence of John Brown was announced.

It is easy to see how this can be done. For example, if Mrs. John Brown expects a baby and Paul Smith of New York is vitally interested to know whether it is a boy or a girl, he can arrange with John Brown in some such way. If he calls up John Brown and the answer is that Mr. Brown is out, then it is a boy. If the answer is Mr. Brown will be back in an hour, it is a girl. If the answer is Mr. Brown will be back in two hours it is twins, and it is perfectly possible to make up a code which would show the sex of the twins or the weight of the boy.

Those however who use the telephone, especially the long distance telephone, will easily realize how very, very few cases in ordinary life there are where it would be possible or worth while to go to the trouble of arranging a code, and where it would be possible to rely upon the telephone girl transmitting the message in the way it was given to her. As a rule, when a man calls up somebody on the long distance telephone he wants either to explain something to the man whom he calls up or to get from that man information which could not be conveyed by a simple yes or no. It takes from one to two hours as a rule to get connection with distant places, such as Detroit or Chicago from New York. If the message is very brief and does not require any discussion, it is usually sent by telegram and not by prearranged code. After all, very few business men would care to give a message to their telephone operator to the effect that "if long distance calls me, say that I am out." A long distance message, say, from New York to a man in Chicago means always important business, and he is not going to risk being out to a possible customer so as to save \$1.80 on a trick code message.

Nevertheless there may have been such cases, perhaps one in 10,000; certainly not more, and there is no doubt that the old Bell companies when they operated the telephones knew of them and took them simply as one of the unpleasant things that one runs into in the day's work. Their business, however, was to give proper service to that vast majority of the people constituting 9999 out of the 10,000 men who call up on the long distance telephone in perfectly good faith with the intention to give the message if the party at the other end was available, and to pay for it. The Bell telephone companies could, and did, afford not to charge for the call when the other person was absent, and nevertheless did good business, profitable to them and on the whole, remarkably efficient and convenient to the country. But the Government's attitude is a vastly different one. In order to catch the one man in 10,000 the Government is perfectly willing to put to an entirely unreasonable inconvenience the other 9999 persons, just as it arrested 60,000 men in New York City in order to catch the miserable 150 slackers.

There is in New York and probably in other cities a chain of restaurants where the men take whatever they want and on going out, tell a boy the amount of their charge. The restaurant company relies on the men being honest and on the further fact that the absence of delays due to the punching of tickets or service by the waiters will expedite the meals and permit a busy clerk having only a few minutes to spare to get promptly what he wants without losing time by waiting in line during the rush hours.

These restaurants proved not only a decided convenience to a certain class of customers, but apparently a very successful venture financially, as there are already several companies operating them.

Such a system presupposes not only a desire to serve the customer, but a frame of mind which is willing to admit that the ordinary man is honest. Can one for a moment suppose that the Government would run its restaurants on such a plan?

In order to understand fully the attitude of Government employees to the public, one more element must be fully taken into consideration; that is the feeling which the employees themselves have as to their status.

An employee of a commercial company is there to do business. He knows that unless he can get the public to deal with him, sooner or later his business head will be chopped off. There was a time on the railroads when a conductor was mainly selected for his ability to bounce off tipsy or noisy passengers. But these times have gone

long ago. In the last 10 or 15 years practically all the larger railroad systems have made a vigorous effort to improve the manners of their personnel, especially where freight service was concerned, because they realized that a railroad lives by the business it gets, and that with the present system of competition between the roads, a railroad that will wait for the freight to force its way on to its tracks instead of going after it, will pretty soon be out of business. In addition to that, the railroad employee knows that his standing with the company will be judged by results. He knows that any complaint against him, however unreasonable, will be investigated and that a considerable number of even unreasonable complaints will affect his position with the company. He knows that the company will sooner or later ask itself why is it that there are so many complaints against John Beebee. Of course all these complaints are unreasonable, still there must be something wrong either with John Beebee himself or with the conditions in John Beebee's place to cause all these unreasonable complaints. Why can't John Beebee handle these unreasonable people in such a way that they would not complain?

And John Beebee knows that if there are complaints, sooner or later the company will say: "Let's try Frank in John's place, and see whether Frank can't manage business there in such a manner that we here would have peace. An unreasonable complaint costs money and time to investigate, and we can't afford to spend it because John hasn't got tact enough to handle the cranks in Three Corners."

John Beebee feels that basically, as far as the company is concerned, the customer is right. While the company will stand by its own people to the limit, the question where the company sees this limit is, as far as John is concerned, rather indefinite. The company, as John knows, may find a complaint on the part of a customer unreasonable, and yet tell John that if he handled the whole matter differently, there would have been no complaint. John knows that every complaint against him is a black mark on his record, and since he has to stand and fall on his record with the company, he tries to handle his relations with the public in such a manner that there should not be any complaints.

The position of Jim Peters on the Government road is however entirely different. Jim Peters is not only station master in Three Corners, but also a Demolican * leader. Jim is quite often under the

* The "Demolican" party is an embodiment of "political" elements in all parties; so is the "Rupublicatic."

impression that his position of station master is given to him as a reward for his work in the last Presidential election and that his work will be considered at least as much, if not more, from the point of view of his vote-getting ability as from that of railroad results.

Jim will be very polite to Henry Small of the Cement Company because Henry Small is a national committeeman in the Demolican Party, and unless Henry gets good service, Jim is going to hear about it through party channels.

But if Tony Galuzzio comes to Jim, Jim does not see why he should be polite with the dago who isn't even a voter. In the first place, he knows that Tony cannot very well complain because Tony has learned how to raise tomatoes, but hasn't yet mastered the art of writing in English. Next, Jim believes that even if Tony should send in a reasonable complaint, all he, Jim, has to do is to go and see the Demolican boss, and the matter will be straightened out.

After all Jim feels that he is there not so much to run the railroad as to keep in line the Demolican organization in Three Corners, the railroad job being simply a plum from the Demolican Party tree.

This attitude of mind will be still more strengthened if Jim gets a position under the Civil Service rules. Then Jim is perfectly satisfied that no matter how nastily he behaves to Tony Galuzzio, he is perfectly safe as long as he doesn't offend the Demolican organization or steal Government funds. And Jim is right, since a man cannot be thrown out of a job held under Civil Service rules because he kept Tony Galuzzio waiting for 20 minutes while he was reading the newspaper. Also if he tells Tony that he is busy and that Tony should come tomorrow with his tomatoes, this is not a basis for his impeachment if he stands in well with the powers that be.

You cannot expect courteous and considerate treatment on the part of people who are not personally interested in your business. An ordinary man is apt to get up, as the saying goes, with a grouch. He may have his personal worries, a baby sick, a bill overdue, or a quarrel with his wife. He may be dissatisfied with his position or prospects in life. He may not understand right away what the man who comes to see him wants, or may be in a hurry when the man comes to see him. The man who comes to see him may be unreasonable or unable to state his case plainly and clearly. There may be a thousand and one reasons why two men who have never seen each other before meet in an antagonistic mood from the first moment, and it takes a real effort on the part of the employee of a company to treat the customer rightly and considerately under such conditions.

The public utilities companies, such as traction, light, water and railroads, have learned this long ago and have applied various methods in order to insure the customers getting fair and considerate treatment under all conditions, as far as possible. The Government has never made any such effort, and in fact cannot very well do it for the very simple reason that the entire system of employing and discharging Government employees is basically different from that prevailing in the private companies. Where a man is hired because he is a Demolican and especially where a man considers and is given a right to consider that he has his job for life, considerate treatment of the public is simply impossible of enforcement. All governments the world over are run on bureaucratic principles and by bureaucratic methods, and you cannot, because of the very nature of things, have a bureaucratic organization run its business on business methods.

Whatever advantages Government ownership of railroads and other public utilities may have, considerate treatment of the public certainly cannot be expected to be one of them.

CHAPTER V

GOVERNMENT OWNERSHIP AND CONTROL OF THE INDUSTRIES

It is not generally realized that government ownership means far more than the mere words imply.

Actually, government ownership means not only the ownership of the railroads themselves, but what amounts to practically absolute control of the majority of the basic industries of the country.

If the government owns the railroads, it becomes the exclusive customer for rails, for rolling stock, locomotives and railroad supplies, a business of many hundreds of millions of dollars per year. It is also one of the largest customers for cement, building materials, roofing, etc., and even that is not all yet.

The government, if it owns the railroads, is also one of the largest purchasers of various kinds of fuels, such as coal, oil, and of lubricating oils. It will be also in the market for tremendous amounts of semi-manufactured and manufactured wood products such as ties, beams, boards, etc. As owner of electrically operated railroads it will have a controlling say as to the producers of heavy electrical equipment, in addition to which it will every year purchase vast amounts of copper in connection with the growing electrification of our railroads.

These are but the major instances which indicate altogether that if the government owns the railroads, it will have a practically absolute control over more than 50 per cent of the basic industries of the country, and such a control is dangerous and inadvisable from many points of view.

In the first place, it will undoubtedly lead to deterioration in the efficiency of operation of the industries working for the government.

It is not generally known that plants working for the government are subject to certain restrictions as to the handling of labor, of which plants working for the general market are entirely free. Whether an eight-hour day is advisable already throughout the country or not, we would not be prepared to discuss in the present connection. But it is hardly possible to claim that all the industries

of the country can be converted to an eight-hour day at a moment's notice, without thorough readjustment in the methods of production, standard of wage, and cost of living.

And if we add to it that the government has already prohibited in its own plants the use of all methods (such as stop watch checking), leading to improved efficiency of production, it will become easily conceivable that once in control of the industries, the government would extend the same methods to such industries. In other words, governmental control of industries will mean a lessening in the productive capacity of the country, all the more dangerous that it will be applied on a tremendous scale.

In this way, at the time when the world competition is likely to grow fiercer than ever, the United States will be deliberately placed under conditions where improvements in production will be hampered.

Governmental control of industries is also highly undesirable from another point of view, and that is improvements in the products themselves.

Today, or rather in the days before the government operation of railroads, there were railroad companies with a conservative engineering management, who did not care to adopt any new devices until and unless they have been thoroughly tried out elsewhere. But there were also progressive companies, both small and large, who were constantly on the lookout for improved products and were willing to experiment with them within reason. "The best is the only good for us," was the motto not of the Pennsylvania alone.

Under these conditions, the industries, both those producing the main items of equipment such as rails and rolling stock, and those producing the various minor supplies, always had an incentive for developing and inventing new and improved devices, and that is what kept the American railroads in the forefront of the world's system of transportation.

The attitude of the government is entirely different. In the first place the government not having any competition to meet, is not as keen to adopt new improvements as would be a commercial company which knows that its very existence depends on its being up to date. Then again in all government institutions, the world over, there is a tendency to prefer improvements made by men in the service to those made by outsiders and even to consider that inventions made by outsiders can be used by the government without any compensation whatsoever to the inventor. Such has been the

course in many instances in connection with the use of military inventions, but it remained to the U. S. Railroad Administration to openly announce its desire to make use of private inventions without any compensation to the owners of the patents.

One of the first things which the railroad administration did on taking over the railroads was to issue an appeal to owners of patents on railway equipment and supplies, asking them to forego their rights and to permit the free manufacture of their inventions. Of course such an appeal on the part of any private company would be unthinkable and indeed shows an absolute lack of comprehension of the process of developing inventions. If an inventor cannot receive his just royalties from his invention, all incentive to make inventions is taken away at once. Of course there may be people who would spend two or three years, and say, \$100,000 to develop a new system of voltage regulation for train lighting, and be satisfied with the reward of knowing that they have made the reading of newspapers more comfortable to passengers in Pullman trains. As a matter of fact, however, the majority of inventors (at least successful inventors) are hard-headed business men and want to have their reward in dollars and cents. If the Government cuts it off, it simply sends out a notice to the effect that railroad inventions have no chance of paying for themselves, and that takes away at once all incentive to such inventions, with the result that men engaged hitherto in the work of the improvement of railroad equipment will go into other lines, and the American railroads will begin to stagnate.

Government operation makes the question of the adoption of new inventions more difficult also from another point of view, and that is that centralization of authority in Washington is in itself not conducive to improvements.

This may not be clear at once and therefore we may cite an instance which will show it.

Two years ago the Nashville & St. Louis Railroad had adopted a new type of self-propelled car, having a gasoline engine as its power plant, an electric transmission, and a combined passenger and freight coach all in one unit.

This type of car has been offered to several railroads, who for one reason or another refused to adopt it. The conditions on the Nashville & St. Louis Railroad, having many branch lines passing through sparsely populated districts, were however, such as to make a car of that type desirable.

But the management of the Nashville & St. Louis Railroad, real-

ized the desirability of that particular car because they were thoroughly conversant with all the conditions existing on their lines. They know exactly how many families were living on each of the branches, how many moved in in the last few years preceding the introduction of the new car, or what were the chances for new people moving in with better methods of communication, etc. In other words, the Nashville & St. Louis people knew their lines because they were living with their lines and concentrated all their attention on that little corner of the United States of America where their system was located. Furthermore, they had absolute authority to make any decision that, in their opinion, would fit the requirements of their particular system.

The attitude of the railroad administration of the United States of America, however, will be entirely different. Adoption of new equipment will be in the hands not of the people operating the N. & St. L., but of a big engineering department in Washington. That department cannot know the conditions of operation in every nook and cranny of the country, and will therefore judge every problem on general grounds. If the division which had to decide on the new car for the N. & St. L. consisted say of three men who had their training respectively on the New York Central, New Haven and Pennsylvania (a situation which is more than likely), it would decide that the car is not suitable for the U.S. Railroad Administration.

From the point of view of a central management unification of equipment is far more important than little betterments of local service. But American railroading would never have reached the present high stage of development if it were guided by such a spirit. Too much centralization inevitably leads to stagnation, especially when technical enterprizes get into the hands of political engineers.

In all the years of the operation of the Post Office by the Government there never has been made any attempt to meet local conditions by special arrangements not applicable to the rest of the country. In the production of aircraft the same system of standardization has been adopted and the Navy Department, again a Government institution, always claimed that it could use in its machinery only, or very nearly only, commercially adopted equipment. Such a situation does not promise well for the American inventive genius if the Government takes over the railroads.

But there is a far more important side to Government control of industries through the ownership of railroads, and that is that it is inevitably bound to force the industries back into politics.

In New York up to the time of the Hughes investigation of insurance companies and the legislation which resulted from it, these companies operated in such a manner as to make them subject to possible interference on the part of the State and City authorities, and to make, on the other hand, the friendly coöperation of these authorities extremely valuable. Under such conditions it was practically inevitable that the insurance companies should be in politics, which meant bribery, corruption and other undesirable features. As soon as the activities of the insurance companies were defined in such a manner as to make them immune from interference on the part of Albany and City Hall politicians, the insurance companies have gone out of politics and have stayed out in New York State since.

The great industries are practically out of politics now and the tendency of the times towards cleaner elections is such as to continue to keep them out unless they are deliberately forced back into politics against their wish.

There is scarcely any doubt that the leading men in the industries have learned the lesson of the past and realize now that the less the great industries mix with politics, the better it will be for both sides concerned.

But if two or three persons nominated or elected as a result of political operations will have the sole and final decision as to who should supply the railroads with rails and steel, the United States Steel Corporation (to cite but one instance) would be quite vitally interested in the question who these three men are, and it would be only right and reasonable to expect that it would make an effort to see that these three men should at least not be inimical to the interests of that particular corporation. In fairness, such a right cannot be denied, and the man at the top of the United States Steel Corporation would be very foolish if he did not make such an effort. But from an effort to see that enemies are not placed in a position of power where they can practically ruin the business of the corporation, it is but a step towards seeing that friends should be placed in the same important position, which means that the corporation would be practically forced by conditions to go into politics and to help towards the election of desirable persons.

The United States Steel Corporation was named here not because of any particular reason known to the writer but simply as an example of a tremendously large organization which could do a lot of harm by going into politics on a big scale, which has been out of

politics in the main so far and which could not in fairness to itself stay out of it if the Government takes over the railroads. And not less than fifty big corporations could be named with equal right, as those who would be forced into politics by Government ownership: — Corporations that are making locomotives, ties, supplying to the railroads lumber, copper and the thousand and one other materials that go to keep the wheels running.

It hardly needs discussing the tremendous danger of such a situation. At a time when democratic ideals are spreading through the country with greater power than ever before, an attempt would be made to force the big corporations into politics for the sake of their own protection. The trouble is, however, that the majority of the people would not fully understand that the corporations have to go into politics for their protection, and the idea might easily spread that the corporations have gone into politics to rule the people, which would be nothing but an argument for the subversive elements of our society. Government ownership might be easily advocated by the Bolshevist and anarchistic groups, if they had sense and knowledge sufficient to realize what Government ownership would lead to. It is rather strange, however, to see apparently conservative elements of the society playing into their hands so blindly.

To resume, Government ownership will mean Government control of a large proportion of the basic industries of the country, so large in fact as to practically give the Government the control of all the industries of the country.

This will lead on one hand to the reduction in the efficiency of the operation of the industries, and on the other hand to hindering the development and adoption of new devices and inventions, resulting in stagnation of the mechanical development of railroads.

Government control of the industries will also inevitably force the industries into politics for their own protection, and thus lead on one hand towards greater corruption of our political life, and on the other hand towards a greater cleavage between the various classes of society, thus making Government ownership strongly helpful towards the development of revolutionary and anarchistic ideas.

CHAPTER VI

GOVERNMENT OWNERSHIP AND LEGAL RELATIONS BETWEEN THE FEDERAL GOVERNMENT AND THE STATES

Since the days of the Roosevelt reforms, the question of State rights has ceased to be as burning as it was 25 to 40 years ago. Nevertheless it should not be forgotten that these United States of America consist of 48 sovereign states and that these States have certain rights and form part of an organization which on the whole has been tremendously successful in the century and a half of its existence.

There may be arguments for abolishing the present political structure of the Union and making it one country legally just as it is actually. There are undoubtedly people who would like to see the State boundaries erased, but it is equally doubtless that these people are in a vast, certainly negligible minority at the present moment, and that the country as a whole is neither prepared for, nor willing to stand the abolition of the present division of the Union into its sovereign and independent States.

Because of these, any act which would tend to nullify the present division into States and to make the States, instead of being sovereign and independent units, simply electoral districts, should be taken, if taken at all, with the eyes wide open. It should not be carried out as a joker to a railroad ownership bill and should be considered with the full understanding of what it will lead to.

This is a matter of paramount importance to the continued existence of the country and it is necessary to realize very thoroughly that Government ownership of railroads and other public utilities, with what it involves, will necessarily lead to an emasculation of the present political structure of the States. It will not only deprive the States of their sovereignty, but what is more, will lead to such profound political changes in the system of Government of the country as will give the Central Government absolute control of the State elections, which under the American system of government will mean that the States will lose their independence politically as much as formally.

The relations of the Federal Government to the States as created

by the fact of Government ownership of railroads and other basic public utilities may be divided into two classes, legal relations and political relations, and the former only will be discussed in this chapter, leaving the question of political relations to the next chapter.

Government ownership of railroads may be carried out in one of three ways. In the first place, the Government may take physical possession of the railroad properties and operate them through Government officers, leaving, however, the corporate structure of ownership of the railroads intact. This was the system adopted during the course of the present war when the Government ran the railroads under actual or presumptive contracts with the companies but the companies maintained the title to the railroads. The same system was in operation with respect to the Panama Railroad which was formally owned by a corporation incorporated under the laws of the State of New York but with the majority of stock ownership vested in the Secretary of War of the United States of America.

If this system be continued as a form of Government ownership, the relations between the Federal Government and the States in connection with railroad ownership as they exist at present, would not be affected, since the States would have to do only with organizations incorporated under the various laws of the States and through private corporations, and the fact that the actual operation of the railroads would be in the hands of the Government would not affect the States at all.

It is, however, inconceivable that such a system could be carried on for any length of time, for the very simple reason that it would be bound to result in trouble. In the first place, there can be scarcely any doubt that the Government could not compel railroad companies to continue their contracts with the Government indefinitely, since such a system of operation could not be justified under any of the legal conceptions now in existence. Further, there would be a system wasteful in many respects, as in addition to the actual operating organizations of the railroads in the hands of the Government, there would be a heavy overhead charge due to the necessity of the complicated system of corporate management with very highly paid presidents and directors at a time when the entire usefulness of such corporate organizations would be obviously absent.

If the Z. & Y. Railroad Company is operated by the Government under a fixed rental say, of 50 million dollars, there is no sense in maintaining the Z. & Y. Company with offices, president, vice-president, directors and an annual charge of say \$500,000 to \$1,000,000 in

salaries and expenses, for the only purpose of collecting the 50 million dollars of the Government rental and mailing the checks to the stockholders. Nevertheless, as long as the railroads remain corporate entities, the organization would have to be maintained and would represent one of the grossest examples of sheer wastefulness.

For this and many reasons it is inconceivable that railroad ownership could be long carried on in the form of the physical possession of the railroads by the Government and legal ownership vested in the companies.

Another form which Government ownership could take might be ownership by purchase or condemnation of the stocks of the railroad companies. In that case the Government would purchase the actual stock of the companies just as it purchased the stock or rather a majority of it of the New York Corporation which owned and operated the Panama Railroad.

This system, however, may again meet serious objections, both on legal and on political grounds. The legal grounds would be that the right of the Government to purchase the stocks of private corporations by agreement with the stockholders is of course absolutely plain, but the right of the Government to force stockholders to surrender their stock ownership in private corporations under the laws governing eminent domain is very doubtful. That the Government has the right to take the actual physical property needed for the public good is unquestionable, but whether the Government can take from a private person the title to a property without taking over the property is more than doubtful. There has never been any precedence for such acts and it would appear to be contrary to the general understanding of the operation of the laws governing relations arising out of the principle of eminent domain.

In the next place, the taking over of the stock ownership in railroads by the Government under the right of eminent domain, even if legal, would lead to what would practically amount to a gross political scandal, without anybody deliberately offending political proprietors. Here is a situation of considerable interest.

At present nearly half of the mileage of the railroads of the United States are operated either under receiverships or by companies who do not pay any dividends. The value of the stocks in these companies is in some cases plainly nil, and in other cases of various degrees of doubtfulness.

Under the Constitution of the United States, the Government cannot take property without due compensation. It is by no means

clear, however, what due compensation can be given for the surrender of stocks which have no apparent value. The Government cannot take away from widow Brown the stock of the X. & Y. Railroad which has never paid any dividends in the last 10 years and which is now in a receivership, without giving to widow Brown adequate compensation, and widow Brown still thinks, and some good economists and experts think with her, that the X. & Y. Railroad has been forced into receivership by excessive regulation by the State of Kalawassa, within the limits of which the railroad is located, and by unwise regulation on the part of the Interstate Commerce Commission at Washington, together with stock jobbing by its directors. Widow Brown and five thousand more widows, together with a few bankers in New York and Philadelphia, are convinced that all that the X. & Y. Railroad needs is a little bit of fair treatment on the part of the State and Federal Government, and honest administration in order to return to that state of prosperity in which it was when late Jim Brown bought the stock of the railroad in order to provide for his wife and children. And what is more, widow Brown can show that her contention is based on good reasons.

What is the fair compensation that widow Brown should get under these conditions? Taking the value of the stock as quoted on the New York Exchange, it is, say, fifty cents per share, but widow Brown does not want to sell the stock at fifty cents per share; in fact, never offered it for sale and wouldn't sell it at five dollars per share. She says that she will wait until the country wakes up to the necessity of treating the railroads fairly and will then hold the stock as long as she lives. If the Government pays widow Brown the market price of the stock as it stands today, it will commit a gross injustice and practically deliberately ruin widow Brown. This would be clearly against the Constitutional provision that due compensation should be given to widow Brown for property taken from her.

On the other hand, if the Government pays widow Brown for her ten shares of stock what the stock would be worth under conditions that do not actually exist, or what the stock may become worth in the future, provided conditions change, as widow Brown and her experts believe they will, then widow Brown will be satisfied, but Smith Brothers, bankers, will also be satisfied and the satisfaction of Smith Brothers will be such that the country will hardly approve of it.

There is a big difference between widow Brown and Smith Brothers. Smith Brothers were the clever boys who sold the stock to Jim Brown and thousands of men like him at a time when the stock was worth

\$150 a share. The Jim Browns saw a prosperous railroad company which paid dividends as regularly as clockwork, and they bought the shares in the expectation that this will continue indefinitely. Smith Brothers, however, saw the change in the relations between the railroad and the States as well as the Federal Government. They knew that in the past the X. & Y. Railroad had very much its own way in the State of Kalawassa, that in three cases out of four the Governor of the State was a former counsel for the railroad and every member of the legislature had a pass on the railroad.

But Smith Brothers also saw that a change was coming and that instead of being the boss of the State, the railroad was gradually becoming the ready victim for every campaign of abuse and oppression. For reasons which need not be discussed here the railroad lost every friend that it had, and in fact, being reputed a friend of the railroad was the worse thing that could have happened to a politician in Kalawassa.

Then again Smith Brothers saw that the same policy of railroad baiting was gradually being adopted by the Federal Government through its Interstate Commerce Commission, and that in fact justice was the very last thing that the railroad could expect.

Smith Brothers knew very well how this would affect the price of railroad securities and as soon as it became clear to them what was likely to happen, they have, using Wall Street slang, "gotten from under," letting, in the language of the street, Jim Brown "carry the bag."

Smith Brothers have sold their railroad securities at the top prices and are now free and waiting to see what will happen next. But as soon as the Government decides that it will pay for railroad shares, not the market price but what they may become worth under conditions of different management and different policies to the railroads, Smith Brothers will buy up all the floating supply of stock from such widows Brown as either can't wait for better times or don't know that the better times are coming.

In fact, Smith Brothers do not have to buy up very much stock because when the stock came down to fifty cents a share, Smith Brothers have gradually bought up quite large amounts of it, and they could well afford to do so. They have plenty of free money and they had a general idea that if ever a reorganization of the X. & Y. Railroad should occur, ownership of a good block of stock would give to them a voice in the reorganization with possible privileges in the issues of new stock, convertible bonds, etc.

The country is therefore up against this situation. There is the X. & Y. Railroad in receivership, the stock of which has today a market price of fifty cents a share. Reputable experts say that the stock might easily go up to par within few years, if only the present management were kicked out and if the railroad got a fair deal from the State and Interstate Trade Commissions.

If the Government offers to widow Brown (and forces her to accept) the market price for her shares, it will be clearly an injustice to her because it would mean that the Government forced widow Brown to accept an unreasonably low price after the Government's own actions have decreased the value of the stock.

On the other hand, if the Government pays widow Brown \$100 a share, which would not be unreasonable to pay to that poor woman, Smith Brothers who have never paid for their present stock more than fifty cents, would also be entitled to \$100 a share, and that would mean that the country would be robbed in order to make profits for a few stock exchange sharks.

Neither the one nor the other course would appeal to the country and that is why we say that any attempt to carry through Government ownership by way of enforced purchase of stocks of the railroad companies, would undoubtedly result in gross injustices amounting to a national political scandal.

It can be stated with absolute certainty that any attempt to carry through such a program would result in such an outcry against the party then in power that the odium against it would persist for the next five generations to come. It would be, politically, absolutely suicidal for anybody to attempt such a program, and therefore the only possible way out would be to take over the entire railroad plant as a going concern, physical properties, corporations, franchises, and everything, and simply carry through the program as one of straight and plain Government ownership. While this system would not be free from certain objections, at least it would be undoubtedly legal and clearly comprehensible to the country, but this plan would involve a new set of questions, namely those affecting the relations between the Federal Government and the various States of the Union.

These relations are basically established by the tenth amendment to the Constitution of the United States, which reads:

"The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States respectively or to the people."

Let us see now how this will affect the franchises issued by the

States to the railroad companies in the past and which may be issued in the future.

The Federal Government may acquire the franchises issued by the States to the railroads in the past in two different ways.

In the first place, the Federal Government may acquire them under the same terms that the private companies had them, that is, by acquiring the ownership of the stock of the private companies and by continuing their corporate existence, in the same manner as, for example, was done in the case above referred to of the Panama Railroad. This can be carried through, for example, by acquiring the entire stock of the companies and by vesting it in the Director-General of the railroads.

We have shown, however, above the difficulties connected with it, and now we might add to these the further difficulty that it would place the relations between the Federal Government and the States on a very unsatisfactory basis. Property which was actually owned by the Federal Government would be held by it under a legal fiction of a corporate existence, living under the laws of the various States. The Federal Government would own the property and yet it wouldn't own it, as the real owner would be the corporations still under the laws of the various States.

Furthermore, it is by no means clear whether under the laws of at least some of the States a corporation could continue to exist after it has become known that all of its stock has passed into one hand. A corporation is a legal body representing a joint activity of several physical persons, and one man cannot legitimately make himself into a corporation except when specifically permitted to do so by the laws of the State (as in the case of so-called corporation-sole). As a result it would be perfectly within the rights of the States or their courts to declare void and forfeited the charters of all companies in which the government has acquired the entire corporate capital.

In a proposition so vast as the public utilities of the country, involving an investment of some twenty billions of dollars and the welfare of the entire country, the title would be obviously clouded from the start. There can be only one of two things; either the Government of the United States has the right to own the railroads, then it should own them in its own name, frankly and openly, without the subterfuges of corporations which have no corporate being; or the Government of the United States has no right to own the railroads, then it should not own them at all.

The only way, therefore, for the Government to acquire ownership

of the railroads is by acquiring the franchises directly by taking them away from the various States, and here we come to the point which will determine the relations between the States and the Government.

As far as the Federal Government is concerned, the States of the Union are sovereign and independent bodies politic which have, it is true, agreed to delegate certain rights and functions to a joint body politic known as the United States of America and acting through the Federal Government, but equal to that latter body in every other respect, and even superior to it in that according to the Constitution the powers of the States are universal while the powers of the United States are limited only to those either delegated to the latter by the Constitution or prohibited to the States.

This relation has been exemplified very well by the manner in which the United States has in the past acquired property for its Post Offices and similar public undertakings.

The courts have recognized the right of the United States Government to take over property within the States under the law of eminent domain, subject of course to compensation to owners. Such a property becomes property of the United States but remains subject to the laws of the State within which it is located unless the State by act of legislature transfers the sovereignty over that particular piece of ground to the United States of America.

Because of this, the usual system for the establishment of Post Offices has been that Congress votes the establishment of a Post Office in a certain town within, say, the State of Kalawassa, subject to the legislature of the State of Kalawassa, surrendering its rights of sovereignty over the strip of ground on which the Post Office would be located, to the United States of America, and that strip of ground does not become fully and absolutely a part of the Federal domain until a proper act to transfer it to the Federal domain is passed by the legislature of the State of Kalawassa.

In this way the Federal Government and the courts have for a long time recognized that the United States of America have not the right to infringe on the sovereign rights of the various States of the Union.

And now comes the United States of America and wants to take away from the various States property created under the franchise of those States, and not only that, but to destroy the franchise itself. Under the existing conditions every railroad company is operating its railroads subject to the conditions of the franchise which created it and subject to revocation of the franchise, if these conditions re-

main unsatisfied. Thus if the Pennsylvania Railroad Company should decide to stop the operation of its trains between Philadelphia and Pittsburgh, the State of Pennsylvania would certainly have the power to revoke the charter of the Pennsylvania Railroad as applied to the part concerning the operation of its line between Philadelphia and Pittsburgh, and take such steps to enforce this operation as the State of Pennsylvania might consider legal and necessary, which might be operation of the railroad by the State, creation of a company to operate it, or lease of that part of the railroad to another company incorporated under the laws of the State of Pennsylvania or allowed to operate in the State of Pennsylvania.

This is however so only as long as the railroad is operated by a private company deriving its right to operate the railroad from the charter granted to it by the State of Pennsylvania.

But as soon as the railroad as a whole is taken over by the Federal Government (it is important to bear in mind that it is assumed here that not the stock of the Pennsylvania Railroad Company but the Pennsylvania Railroad as a physical and legal entity are here considered) this relation ceases. If, for some reason or other, the Federal Government would decide to suspend the operation of trains between Philadelphia and Pittsburgh, the State of Pennsylvania would have no way of enforcing such operation.

It could not revoke the charter of the United States of America to operate the railroad between these two cities because the United States of America would operate the railroad not under a charter from the State of Pennsylvania, but under an act of Congress enforced (if it could be so enforced) under the laws of eminent domain.

The State of Pennsylvania could not take away the line between Philadelphia and Pittsburgh from the Federal Government and start the operation of this line by its own means because that would be an infraction on the sovereign rights of the United States of America, and it is a principle on which the Government of this country is based that where a certain right is vested in the United States of America, the States are prohibited from resorting to it. Thus the States could not carry mail in competition with the United States of America, and recently the courts have decided that where the regulation of commerce lies with the United States of America, the States cannot interfere with it even within their own boundaries.

It is clear, therefore, that if the railroads as a whole are taken over by the United States, it can be only in one of two ways.

Either the United States can do it by brushing aside the rights

of the States, which would be unconstitutional, or the United States can take over the railroads with the consent of the States either by means of a Constitutional amendment or by agreements with every State of the Union. Judging from the temper of the country it can be scarcely doubted that neither one nor the other can be accomplished at the present time.

Let us assume, however, for a moment that a way might be found both legitimate and legal for acquiring the existing railroad lines by the United States of America without a Constitutional amendment and without infringing on the present rights of the States. Then we would still be in the presence of the complicated question of the construction of new lines. There may be two cases. In the first place, that of the railroad administration desiring to build a new line. Since this line would lie within the boundary of one or more States, the United States would have to secure a franchise for the construction of the line from the State or States within whose territory the line is located, and that would bring the United States as a petitioner before the various States of the Union. There is nothing unusual in this, however, and this situation can be handled probably in the same manner as that of the building of Post Offices and river improvements. In the vast majority of cases the initiative for the building of new lines would come from the States who would be perfectly willing and even glad to smooth out the legal way towards all improvements.

The case, however, would become somewhat more complicated if a certain railroad would be considered desirable by the State but not by the Federal Government. Suppose that the citizens of the State of Kalawassa want to have a railroad constructed between say, Albion and Venice in the State of Kalawassa, a distance of 450 miles. The Federal Government does not want to build the railroad, but the State wants to do it and in fact has the necessary money for it. There is then nothing to prevent the State of Kalawassa from granting a charter to an Albion and Venice Railroad Company and in going ahead and constructing the railroad. The United States Railroad Administration will have then to take this railroad into its system, exchange freight and passenger service and rolling stock with it, and as a result, have partly public and partly private railroad ownership. In other words, the public character of ownership of public utilities in this country would not be maintained unless the States either agreed to maintain it or were deprived of the power to break it.

The first can be done again only by ways of either a Constitutional

amendment or agreement between the Federal Government and every State in the Union, neither of which is contemplated at the present moment, or indeed seems feasible.

The second would lead only to trouble.

The relations between the Federal Government and States will be still further affected in the matter of taxation of railroads. At present the railroads form an important, and in many States, vital object of taxation, and the States within their territory and within the bounds of their Constitution have absolute sovereignty as to the taxation of the railroads. Thus the States cannot pass taxes which would be discriminatory or confiscatory, but as long as the taxes are distributed equally among the tax-payers and as long as they are kept within reasonable limits, the States are free to tax property within their territory in the same manner as would any sovereign nation.

This right of the State is, however, made doubtful the day the Government takes over the railroads as a whole. Of course if the Government acquires only the physical possession of the railroads, as has been the case during the present war, it is the companies who are still private concerns that pay the taxes.

Also if the Government simply purchases the stock of all the companies these companies will continue to pay taxes as private organizations, even though their stock may be owned by the United States of America.

But if the Government acquires the railroads as a whole, they become Federal property and as such cannot be taxed by the States unless specifically permitted to do so by Congress.

In case such permission should be granted, however, the situation of the States with respect to the railroad property is basically changed.

As long as the railroads have been private property, the States have been taxing them because of their sovereignty within their territory. To continue to tax them by permission might bring the same amount of money into the State treasury but would mean that one of the basic appendages of sovereignty would be taken away from the States because they would do by permission what they previously did in their own right.

It is very doubtful whether such a sovereign right of the State as taxation of property created under the charter of the State can be taken away from the State without its consent or without a change in the Constitution of the United States. The fact remains, however, that such a change cannot be carried out without basically changing

the entire structure of this country in one of its most important relations.

This is especially so because the railroads exist in the State through a charter granted to the companies by the States in the exercise of their sovereign power.

In practically no case have charters been granted indefinitely and absolutely without the right of revocation, so that the State maintains a certain element of ownership or participation or right of supervision over the railroads, and further it maintains the right to tax them, reserved in practically every case either by an express provision in the charter or by the various State laws, the constitutionality of which has never been questioned. In the next place, in many instances the States have assisted the railroad companies in the construction of their lines by various grants in land, money, guaranty of securities, etc., and the taxation of the railroads represents to a certain extent means by which the State recovers the expenditures in the promotion of the railroads in the early stages of its development.

The State, however, not only reserves the right to tax the railroads but also to determine to what extent the railroads should be taxed. As a sovereign body the State has the right either to tax the railroads to the limit necessary for the maintenance of the State itself, or, on the other hand, to reduce the taxes so as to assist the railroads in their development, and if necessary, to supplement the deficit thus created by such other means as the State can legitimately employ, provided of course there is no discrimination involved in such a policy.

Under Government ownership, even if the State be permitted by Congress to continue the exercise of taxation, the freedom of determining the amount of tax would not lie with the State any more. The State cannot by the exercise of its own sovereign right increase the taxation of the railroads because to permit it to do so would give opportunity for the States to force the United States of America to carry all of their expenses or at least an unreasonable proportion of them.

But the State cannot also reduce the taxation of the railroads if it desired, although that might and most likely would meet with hearty approval of the Federal Government because the right to reduce taxation but not increase it would not be in compliance with the principle of the sovereignty of the States.

Whether Government ownership is desirable or not, there is scarcely any doubt that it cannot be accomplished without depriving the States of the sovereign powers now vested in them, which in its turn

cannot be done without a Constitutional amendment of far-reaching importance. The next chapter will consider the actual political relations between the Federal Government and the State created by the fact that the Government is going into activities of such vast extent as are involved in the ownership of public utilities.

CHAPTER VII

GOVERNMENT OWNERSHIP AND POLITICAL RELATIONS BETWEEN THE FEDERAL GOVERNMENT AND THE STATES

In the past and at present the Federal Government had neither any strong incentive nor real power to interfere in State politics. In important elections one or another member of the Government was apt to come out and make an address or two for a candidate whose personality or politics appealed to Washington, but this interference was not always of help to the candidate and could create as much resentment or opposition to him as it could render help. At best it was a matter of personal influence of the man who appealed on behalf of the candidate, and as such carried no particularly objectionable features.

At the worst, this influence could extend only to the States in which the dominant party was the same as that of the Government in Washington. Taking the recent election in which the Federal Government and especially the President, took an unusually active part, and in which their position was strengthened by the fact that the country was at war, we see that Presidential interference more or less decided the issue in the Senatorial contest in Mississippi, a rock-bound democratic State, but was far less effective in New Mexico, and entirely ineffective in Wisconsin and Michigan, both of the latter being Republican States.

The incentive for the Federal Government to interfere in State politics is also not great and at best extends to the election of Federal representatives such as members of the House of Representatives and of the Senate, and of course, Presidential elections. The Washington authorities, however, had practically no interest in such matters as the elections of the Governors, State Legislators and minor officers, and therefore practically never interfered in such matters, — the only rare cases being those where the State election might materially affect a future Federal matter, such as Senatorial election, and even that has been taken away in the last few years by the direct election of United States Senators.

As a result of this situation, the Federal Government kept practically out of State politics, at least as a matter of general rule, and whenever it tried to do so, it did it in an open manner, as for example, in the last attempt made by the President to secure a House of Representatives and Congress favorable to the administration. Such open attempts are in the main essentially in conformance with the spirit of American political life and are freely discussed in the press and in political meetings on their merits.

A very different situation is however created by Government ownership of public utilities on a scale as vast as would be constituted by the ownership of railroads.

Such an ownership gives at once to the Federal Government both a great incentive for attempting to control State politics and a power to do so. The incentive comes from two sources. In the first place, by ownership of public utilities the Government comes at once in direct business relations with the States. Even should the Federal Government be given absolute control over the management of the railroads, including rates, opposition on the part of the States may create for it a considerable amount of trouble, especially as every act of opposition by the States will necessarily attract a large amount of publicity and keep the country in a state of ferment which may ultimately result in a complete reconsideration of the whole subject of Government ownership.

This situation has been already illustrated recently in the matter of the raise of telephone tolls. Had Mr. Burleson's order been objected to by private citizens, it would not attract so much attention and would place the Government in a position of advantage before the courts, but the order raising telephone rates was objected to by some dozen States, among them a commonwealth as rich and powerful as the State of New Jersey, which placed the matter at once in an entirely different light. Under the pressure of these States, the new rates have been actually suspended by order of the State courts in several large sections of the country and the States have the means to fight what they consider an unjust act of the Government to the finish, and are capable of commanding the necessary legal talent and money for an extensive litigation of this nature.

There is no doubt that the Postmaster General of today or of five years from now would easily realize that he could have a much freer hand in the control of telegraphs and telephones if he could command unquestioned allegiance on the part of the States, and he

would have every interest to see that legislators, Governors of States, perhaps even State courts, are elected such as would be "loyal" to the Postmaster General, perhaps even before they are loyal to the people of the community which they have been elected to govern.

In the next place, it has already become apparent to a certain extent, and will become obvious to everybody as times goes on, that Government ownership involves such a change in relations between the Central Government of the Union and the people as is entirely inconsistent with the spirit of our Constitution, which created a strong Federal Government but limited its powers to such an extent that it would not be able to interfere with the private affairs of the citizenry. The entire structure of the body politic of the United States of America is based on a recognition of individual freedom of the citizens as well as on granting considerable discretionary power to the Government within, however, a limited sphere of activity.

It is impossible to radically change the whole economic structure of the country and still maintain for any considerable length of time a political structure created for a different economic structure. Sooner or later the political structure will have to be changed so as to bring it in adjustment with the changed economic conditions, and under the laws of governing this country, Constitutional amendments can be passed only with the consent of a majority of the States. Since the Federal Government cannot carry out its system of Government ownership of public utilities without Constitutional amendments of a far-reaching importance, it will have every incentive to control legislators in such a manner as to secure such Constitutional amendments.

The third reason for the Central Government to be interested in State politics lies in the fact that Government ownership of public utilities will bring the Federal Government into business in every state of the Union. Within the right of way Federal law will probably prevail, as Government owned properties will be properties of the United States of America, but outside of the right of way State laws will continue to be in force, and the States, if they should so desire, may make life for the railroad administration either quite pleasant or very unpleasant indeed. The great corporations have found that States and communities in which their plants are located may in various ways determine whether the existence of these plants would become an easy or a most difficult matter, and the railroads

will undoubtedly be in the same position. Under these conditions it becomes a matter of great importance for the Federal Government to see that the legislators of the States, their mayors and governors, etc., are in favor of Government ownership and willing to support it by all means. Government ownership will inevitably drive the Federal Government into State and local politics with all its force. That it will be anything but a desirable influence needs hardly be questioned. It does not matter what foreign influence controls politics. Whether it is a corporation which owns mines or a railroad or a foreign Government, it means always that elections are fought out not on the honest issue placed before the voters but by dark forces acting underground and afraid to own up to their existence. City after city, State after State have fought these influences and found political life cleaner every time after they have been smashed. The most recent case of such a fight took place in the State of California where Governor Hiram Johnson was elected on an issue of the people of California against the Southern Pacific Railroad. The people of Kalawassa against the Federal Government would be a truly regrettable issue which, however, might be made inevitable in the case of Government ownership of public utilities.

But in addition to having an incentive to go into local politics, the Federal Government would have a tremendous power to do so. Today it has roughly about 125,000 men on its pay-roll (not counting the temporary military establishment created in the last 24 months). Of these 125,000, a large section is located in Washington where they have no vote. Besides, their residence in Washington has deprived them of their local connections. Another large share of Federal employees consist of men in the service of the Post Office Department, a large proportion of which is underpaid and worked to such an extent as to leave them but little leisure for engaging in local political life. In fact it is quite doubtful if the Government would really control the vote of the majority of its own employees at the present day. Outside of that, the Government has neither any organization nor money available for engaging in local political campaigns.

The situation changes, however, entirely the day the Government secures complete ownership of public utilities.

In the first place, the control of railroads and associated industries will give the Government from 2 to 2½ million men directly depending on it for their living and from 3 to 5 million more men,

the prosperity of whom depends to a material extent on the favor of the Government.

It will not be very difficult to organize these men in such a manner as to make them vote more or less as a unit not only in Federal but also in State and local elections, where after all, a small, compact, well-organized body can carry the day any time, as witnessed by the power of prohibition, after all controlling only a small percentage of the actual voting population of the respective communities.

It should be also borne in mind that as in all politically owned enterprises, it is very likely that the best appointments in the service will go to the men who control votes rather than to those who can perform their services best. With Government ownership the railroads will inevitably become part of the political machine (this is discussed more fully in another chapter), and as part of the political machine, they can be used in State elections just as easily, perhaps more so, than in the Federal elections.

In addition to that, the Government will have a well-organized active force in every community. Government ownership of public utilities will involve it in extensive litigations in connection with condemnation of property, damage suits, etc. As a result the Government will have to maintain a great legal force beginning with a big office in Washington and ending up with lawyer Abe Burke in Three Corners, Kalawassa, and every one of the members of this force will bear clearly in mind that while he is retained for the purpose of fighting for the railroad interests in the courts, he may easily lose his job if his party is beaten at the polls. He will therefore work tooth and nail for the railroad and party in every election, no matter whether it be for the President of the United States, or the sheriff of Three Corners County in the Sovereign State of Kalawassa.

Neither will the Federal Government lack means for meddling in State politics. If lawyer Abe Burke gets a salary from the railroad of \$3000 a year where his whole income before Government ownership was \$1500, he will know that he is expected to contribute from \$500 to \$1000 to the local campaign fund, and if the campaign fund needs more money, there wouldn't be much trouble to pass word to the right people to give lawyer Abe Burke a special retainer of \$500. Just why the shipper and the tax-payer should pay to maintain a political lobby for the Federal Government all over the country and to prevent each community from voting the way it wants is of course an entirely different question, but such a situation is

practically inevitable if public utilities pass into Government ownership.

There is a feature in connection with the interference of the Federal Government in State and local politics which makes it particularly dangerous and undesirable. In America, the Federal Government always belongs to one party. Coalition cabinets are unknown and the whole government is either Democratic or Republican. If Government ownership comes into being as we have shown above, the Federal Government will be interested not so much in having the State administration belonging to the same party as itself as in having the State administration favorable to Government ownership of public utilities. A democratic State Administration objecting to giving the Central Government free reign in railroad affairs would be actually more objectionable to a democratic administration in Washington than would a Republican State Administration willing to support the Federal Government in the matter of public utilities.

As a result, it is by no means unlikely that the Federal Government will attempt to meddle not only in State politics generally but in party politics within the opposition party, thus transferring the real fight into the nominating bodies, primaries, etc. The worst accusation that has ever been made against corporations in respect to political jobbing has been that such corporations do not really care as to which party would be in power, provided it is in favor of the corporation, and corporations were accused of contributing to the funds of both parties, which must have inevitably lead to the corruption of both parties.

Any attempt on the part of the Central Government belonging to one party to interfere in the internal affairs of the opposition party can be carried out only by means radically opposed to all forms of democratic government, and in fact, cannot help sooner or later leading to the utter demoralization of the entire political life of the country.

In this connection we may emphasize once more the fact that an act of such vast importance as the acquisition of railroads, telephones and telegraphs by the Central Government must be considered in a much broader light than from the point of view of the direct ownership of public utilities. The economic and political ramifications of such a change would be so great as to modify most radically the entire structure of the American commonwealth. Whether such modification would be for good or evil is of course a matter which every citizen should decide for himself on the basis

of such facts as he may have available. The important point, however, is that the question should not be decided exclusively on the basis of whether Government ownership would improve the railroad of telephone service or cause its deterioration. It should be clearly realized that the United States of America will not be the same country as it is today ten years after the acceptance of Government ownership of public utilities. The democratic institutions of the country will be gone because a new power will rise in our midst strong enough to suppress them in fact, if not in name. The two great parties which control the destinies of the country today may retain their names but will disappear in fact, and instead two new parties will be created, those who desire Government ownership and who wish to stand by the party in power, and those who are opposed to it, and it should be clearly understood that those who are opposed to it will not be permitted to fight out the question in a fair manner because the party in power will have both the incentive and means to suppress all opposition by the use of the tremendous powers given to it by the direct ownership of a plant representing an investment of over 20 billion dollars and by an indirect control of the basic industries of the country.

There was a time when the country was in fear of being controlled by the so-called money interests, and yet the money interests would never have either the power or the authority of a central government, which by one whisper down the line can ruin the business of any citizen, and which would hold in the hollow of its hands the existence of practically every industrial concern in the country.

CHAPTER VIII

GOVERNMENT OWNERSHIP AND LEGAL RESPONSIBILITY

Transportation is such a tremendously important item in the industrial life of the country that those who have it in their control should be strictly responsible for any acts they commit.

A railroad company can easily ruin a commercial undertaking by refusing it adequate transportation. It can hamper it from securing the raw materials and fuel necessary for its operations, and could do it still more by refusing it adequate facilities for carrying its products to the market. In fact there have been in the past, mainly in the distant past, cases where this was actually done for various, usually illegal reasons.

Private companies operating railroad lines cannot, however, do such things easily, in the first place because in the vast majority of cases the companies are interested in developing the industries and not crushing them, as their profits depend on the growth of traffic, and hence on the growth of industries. In the next place the shipper has an easy recourse against a private company. If a private railroad company interferes with his business to an extent which can be shown, he can have recourse to various legal proceedings such as injunction, writ of mandamus, etc.

Then again he has a further weapon in a suit for damages against the railroad company, and in the courts of law the shipper complainant is in an exactly equal position to that of the railroad company defendant. In fact, if anything, he is in a good many cases in a better position, because the attitude of the courts has been such that if the shipper could to any reasonable amount establish a case of discrimination against the railroad, the latter was expected to be able to establish an absolutely clean bill of health or it would have to pay heavy damages.

With Government ownership this situation changes entirely and at once. In the first place it would be extremely difficult for a shipper to secure either an injunction or a writ of mandamus against the Director-General of Railroads unless he could show beyond any

doubt deliberate discrimination against him, a thing which usually cannot be shown in the preliminary stages of legal proceedings, and in the majority of cases cannot be shown at all, even when clearly existing.

Next the shipper would have against him practically the entire weight of the federal government, since in addition to the legal department of the Director-General of Railroads himself, the Attorney General's office would always be willing and able to assist in the fight against a shipper, especially when the case was of such a nature that it might become political capital for the anti-administration forces.

Unless the shipper were one having very large means at his command, the battle would be entirely unequal and the result clear from the start.

Add to this that the selection of courts in which the proceeding would have to occur would be also restricted by the fact that the suit is against the federal government.

In the case of a litigation with a private company the case would be taken to the State or local courts, depending on the nature and amount of the claim. Bill Smith, shoemaker, would have the same standing in court as the Transcontinental Billion Dollar Railroad Company, and he would not have to go to a special court just because the railroad company is capitalized at a billion dollars.

An ordinary attorney would be good enough to handle the case before the ordinary local judge elected by that community in which Bill Smith, the shoemaker, is making his living. Under the everyday democratic institutions still prevailing in this country, Bill Smith and the Transcontinental Billion Dollar Railroad Company could both expect to get an equitable verdict, and in the vast majority of cases would actually get it.

But as soon as the railroads pass into Government ownership, any suit brought against them would have to be brought against the Director-General of Railroads in the federal court and handled under a rule of proceedings not familiar to the usual attorney. It is a fact not generally known that the great majority of lawyers, even those having large practice, are entirely unfamiliar with the proceedings of the federal courts, and whenever they have a case in these courts prefer to handle it through attorneys who have made a specialty of practice before these courts and who charge accordingly.

Then again the Judges of the federal courts are not elected by the community in which the courts are located. They are appointed

from Washington and owe allegiance really only to the power that gave them their position. They are entirely unknown to the local community, often do not come from the local community, and are not interested in local opinion.

Essentially, the case between the local shipper, Bill Smith, shoemaker, and the Director-General is decided by a Judge appointed by the same powers as the Director-General himself, often with the advice of the Director-General, and while it is not implied that the judge would be necessarily coerced by this fact to render every decision in favor of the Government, there would certainly be a tendency quite natural on the part of the judge to remember that the case is in its very nature an attack on those who placed him, the judge, in his judicial position.

There may, and most certainly will be judges who will remain entirely unaffected by any such considerations, but also there may and will be judges who will consider themselves primarily political appointees of the party in power and who will render their decisions accordingly.

Throwing the entire tremendous business of railroad transportation into the hands of the Federal Government, and making the Federal Government a party to the innumerable suits for damages to which the railroad companies are subjected, will at once make the Government vitally interested in the performance of justice in the Federal courts.

The Government will have to build up an immense legal machinery with thousands of lawyers, investigators, secret service men, witness chasers, etc., who will render the Government more interested in the way the Federal courts are conducted than it is now.

Even today when only a very small percentage of the cases handled by the Federal courts actually concern the Government, the appointments to the Bench are largely political and constitute one of the most undesirable features of the party spoils system.

When, however, the conditions will be such that every year the Government will be engaged in litigation running into hundreds of millions of dollars, and when the party spoils will mean not only the minor positions as at present, but the immense patronage running into millions of dollars a year in the gift of the Director-General of Railroads, the question of the courts will acquire a tremendous significance.

Not only will cases and suits to the extents of hundreds of millions of dollars have to be decided each year for or against the railroads,

but the decisions of the courts will materially reflect on the efficiency of the railroad administration. Because of this, these decisions will acquire a political significance of far greater importance than is the case now, which will make it obviously advisable for the Government to see that the Judges know what should be the guiding tendency in the decision of their cases.

In other words, Government ownership will mean that the Federal courts will sooner or later, most likely sooner than later, become purely political organizations, and that justice, which is usually pictured as blind, will become either very blind indeed, or still worse, squint-eyed.

Consider now the case of a shipper who has a grievance against the railroad. Assume, for example, that there are two plants within three miles' distance, the Bill Smith Cement Company and the John Brown Cement Company. Bill Smith finds that John Brown is getting all the cars he wants, both to bring material in and to take it out, but that whenever he, Bill Smith wants cars, they are always mysteriously absent, either up or down the lines.

Further Bill Smith finds that John Brown gets exactly the kind of cars he wants and in exactly the right quantities and times. On the other hand, when Bill Smith wants ten gondolas he gets five closed cars, or sometimes when he asks three times for ten gondolas he will get thirty of them at once, with the demand that these should be loaded and ready to take out in 36 hours.

Those who know railroad management know that the old saying about there being more than one way to skin a cat is correct. A railroad, if it wants to, can easily upset any business by supplying it either the wrong kind of equipment or proper equipment at wrong times and in wrong ways.

Now Bill Smith is an American citizen, lives presumably in a free country, governed by laws where all citizens are equal, and he goes to court. At once, however, he finds that since the defendant is the Federal Government of these United States of America, its officers have a very wide amount of discretionary power, and Bill Smith cannot compel them to do anything that he thinks they should do unless he can prove to the satisfaction of the court that the officers of the Federal Government have committed a criminal conspiracy to injure his business, a thing which even if true can practically never be proven.

If Bill Smith were suing a private company he could bring in expert testimony, could show what the private company is doing

for John Brown, and in this and various similar ways establish his case to the satisfaction of the court. But no such thing can be done when the defendant is the Federal Government, and for a reason.

When the Constitution of the United States and the laws governing the statutes and activities of the Federal Government were drawn up, the presumption was that the Federal Government would engage only in such activities as could not, for obvious reasons, be carried on by State Governments. These activities were primarily the defense of the country through the officers of the War and Navy Departments, the foreign representation of the country through the Secretary of State and his subordinates as well as the ambassadors and consuls of the United States. Next came interstate commerce, which was, however, to be carried on not by the Federal Government itself but by its citizens, and was only to be protected by the forces of the Federal Government from interference with its freedom. Finally, the Federal Government was entrusted with such activities as the mails, patent office, the preservation of lands and forests belonging to the people of the United States, etc.

Even a brief analysis of all these activities shows that the Federal Government was by our Constitution and laws entrusted with the carrying on of very simple acts of two characters. First, the defense of the country, which by its very nature required that the officers of the Government be given a certain amount of discretionary power, applied, however, strictly within their own departments only. Next, operations which affected the relations between the various citizens of the country, and not relations between the Federal Government and the citizens. Thus in the patent office the Federal Government undertook merely to examine inventions and to issue patents which would protect one citizen against the infringement of his rights by another citizen. In the Forestry Department and so-called Government lands, the Federal Government was protecting the domain of the people against the possible infringement of it by individual members of the people.

It is only in the handling of mails that the Government was actually performing a function approaching a business transaction. There the Government was actually operating a service for which it was paid by the citizenry and in which it had to compensate for the service such private institutions as railroads, delivery carriers, etc. There, however, the functions of the Government were very simple and practically did not vary from year to year. The Gov-

ernment was handling the same letters at the same postage along the same lines of transportation. The whole machinery of mail operation has been pretty well established and standardized, generally known and so important that the law considered that under no conditions should it be interfered with unless the party desiring such interference would establish an absolute *prima facie* case.

Laws as they exist today place the officers of the Federal Government from the president down to the smallest rural free delivery carrier in a privileged position, because they are considered to be performing the peoples' service of a well-understood character and of great necessity.

Likewise, the nature of the operations of the Federal Government is of such a high character (the defense of the country, protection of inventions, protection of the freedom of interstate commerce, the mails), that the presumption is that an officer of the Federal Government has no personal bias which might warp the impartiality of his judgment. It is scarcely possible to believe that an examiner of the patent office could be prevailed to grant a patent to John Brown rather than to Bill Smith, and it is absolutely unbelievable that Bill Smith could induce the Post Office to deliver to him mail addressed to John Brown.

The situation changes, however, entirely with Government ownership of railroads. There suddenly the number of government officers is increased many thousands of times. Every little station master becomes a Federal officer, while the machinery of the Government, the way of selection of Government officers, etc., remains as before.

Likewise, the character of the Government service changes very materially. Instead of the Government officer performing duties, the character of which is strictly defined, he obtains a large amount of discretionary power in purely business matters which require sufficient training, knowledge and absolute impartiality to be properly handled.

Let us take again the case of Bill Smith and John Brown. If Bill Smith and John Brown came to the Post Office each with five thousand circulars, the Post Office would accept them without a murmur, and expedite as fast as it could. The Post Office would not tell Bill Smith that he should wait with his circulars for a week because it will send John Brown's circulars first. Most likely both batches would be thrown in together, classified, and go out indiscriminately whether sent by Bill Smith or John Brown.

But the condition becomes entirely different if Bill Smith and John Brown both ask for ten gondola cars. There the railroad management might give, if short of cars, five gondola cars to each, and again it might give ten to John Brown and tell Bill Smith to wait. Which course would be pursued would depend entirely on the discretion of the man in charge of the matter, and the courts would absolutely refuse to change his decision or to issue an injunction against the repetition of the same conduct next time or a writ of mandamus compelling him to give to Bill Smith half of the cars that he intends to give to John Brown.

And yet Bill Smith can be ruined quite easily by such tactics, and all because our Constitution and laws as they affect the operations in the Federal Government have been developed for a state of things where the Government does not engage in vast commercial operations. To transport the same system of laws to a new state of things would mean first that the Government would be given an absolutely unlimited power to ruin every citizen in the land at its sweet will, and second, that the courts instead of being the bulwark for the defense of the rights of the people, would come into absolute disrepute, first because of their lack of power to right obvious wrongs, and next because by the very state of things they would be gradually converted into abject servitors of the ruling party.

Government ownership with the existing laws would then become a dangerous cancer in the American body politic. If Government ownership is to be adopted at all, this decision should be accompanied by a most thorough revision of the Constitution and laws of the United States of America as affecting the rights and responsibilities of the officers of the Federal Government, a task so stupendous as to take many years, especially in view of the existing complicated system for carrying through Constitutional amendments.

The element which is not always clearly realized but which has a vital bearing on the subject is the civil responsibility of the management of transportation systems.

If Bill Smith has a reasonable grievance against a railroad company which can be expressed in the form of a damage suit, the railroad company under all normal conditions will make haste to rectify the grievance and to settle with Bill Smith in some way or other, because if it doesn't, Bill Smith will sooner or later secure a judgment in his favor and the company will be the loser. Since the company is in business to make money, it does not want to give to

Bill Smith any grounds for damage suits and is therefore naturally eager to treat Bill Smith right.

This attitude of the company affects Paul Hamper, who is, let us say, the station master in Threecorners, Kalawassa, and deals with Bill Smith. Paul knows that if anything that he is doing will give Bill Smith ground for a well-founded damage suit, the Headquarters will want to know what Paul's head is filled with — brains or hay, and unless Paul can present a mighty good explanation of his conduct, there will be a new station master at Threecorners.

As far as the railroads are concerned, the policy of "the public be damned" has gone out of existence since the days of the Civil War. The railroads today want pleasant relations with the public, in the first place because that is the best way to make money for them, and in the second place, because the public has excellent means to make the railroads behave; by hitting them in that most sensitive spot, the pocket.

With Government ownership the situation becomes however, entirely different.

When the Government took over the railroads, poor Paul Hamper lost his job anyway, and Jim Daly, the Republicrat leader in Threecorners, was appointed station master. He doesn't like the Bill Smith Company because Bill Smith has been contributing to the Demolican party and is rather nasty in various ways to Bill Smith. The Director-General of Railroads wants, or says that he wants to keep the railroads out of politics, but they have their own opinions out in Threecorners.

If Bill Smith brings a damage suit, Jim takes this simple, and from his point of view, reasonable view. The damage suit will be handled by Judge Hedlock, also a Republicrat man. It will be defended by the Republicrat lawyer of the railroad administration, possibly with the help of the Republicrat United States District Attorney's office, or a representative of the Attorney General's office. At best it will take two or three years until the suit is placed on the calendar, and what with appeals and Supreme Court delays it might take twenty years until it is decided. By that time Jim Daly will be probably either dead or out of his job as station master, so he doesn't care a hang as to which way the verdict goes, and anyway if the verdict goes against the Government, the Government will pay and that's all there is to it.

Jim Daly, unlike Paul Hamper, the station master of the private railroad company, has absolutely no incentive to be pleasant to

Bill Smith, and as he feels the exalted nature of his position as an officer of the federal government, most likely he will not be pleasant. No man who is not strictly responsible for his acts can be relied upon to perform his work in a proper manner. This is the basic trouble with all autocratic systems. An Emperor may be a very fine man personally, but as long as he feels his crown sitting tight on his head, he will be an autocrat and a tyrant. Government ownership with the existing state of laws will create thousands of little tyrants, scattered all over the country and entrusted with an activity which lies as the basis of the industrial development of the land. That the land will suffer needs hardly be told.

The question of responsibility before the courts in the case of Government ownership of railroads becomes extremely important in view of two things. In the first place, the Government is notoriously a slow payer, and in the second place, contracts with Government are less protected and more difficult to enforce than similar arrangements with private companies.

If the Government takes over the railroads it will have to purchase tremendous amounts of supplies, rolling stock, etc., and also enter into vast contracts for the expansion of the railroad system and its maintenance.

We have seen during the war how this matter is handled. To take but one example. The War Department has contracted several hundred million dollars' worth of supplies and work, without however putting the contracts into formal shape because of the emergency conditions under which the work had to be done. Whether the War Department was right or wrong in entering into such contracts is beyond the point as far as the present inquiry is concerned. The fact remains, however, that on the part of the War Department there was absolutely no concealment in this connection. Everybody concerned with the carrying on of the war knew that contracts were placed by telegraph, by telephone, by informal letters, sometimes orally, and the Treasury Department certainly could not help knowing it.

As far as the country is aware, there never was any objection on the part of the Treasury Department either to the policy of the War Department in entering into such contracts, or even to payment under such contracts, and it was only after the armistice when the War Department wanted to cancel some of these contracts, that the Treasury Department objected to it on the ground that contracts informally entered into have no validity in the eyes of the law and

cannot be cancelled. This necessitated ultimately Congressional action and brought about a tangle which may yet cost the country many millions of dollars.

This exemplifies well the attitude of Government departments. Important work of the War Department in a national emergency would have been materially delayed if that department and its contractors waited until the legal staff had drawn up, signed, sealed and delivered, formal documents. Nevertheless, the Government does not recognize that an emergency, even such a great national emergency as the war with Germany, can justify the slightest infraction of the sacredness of the gospel of red tape, no matter in what good faith such infraction was permitted.

If the Government starts to operate the railroads it will have under the present laws to apply to its immense transactions the same red tape system that has been developed for the benefit of the comparatively petty purchases of the Washington departments. Contracts for the hundreds of millions of dollars worth of lumber, coal, locomotives, bridges, etc., will have to go through the same bureaucratic rigmarole that has been established for the purchase of pencils for the Department of Circumambulation.

And then if in a contract an official of the Government forgot some important, from the point of view of the high priests of red tape, detail, the unfortunate contractor may find that he has delivered his goods but has to whistle for his pay.

Let us take such an example. A flood occurs similar to that of Dayton, Ohio, a few years ago. The railroads are operated by a private company. Mr. Daniel Willard of the Baltimore & Ohio wires to the Ohio Cement Company, ordering it to rush five thousand barrels of cement to a certain point where it is proposed to use it for reënforcing a stretch of permanent way in the danger of being washed out.

In the eyes of the law such a telegram constitutes, if accepted by its recipient, an absolutely binding contract. The Ohio Cement Company will deliver its cement, in due time will present a bill and collect the money. If the Baltimore & Ohio Company refuses to pay, all that the Ohio Cement Company has to do is to prove to the satisfaction of the court that the telegram was actually sent by the President of the Baltimore & Ohio, that the cement was delivered in good condition and with proper speed, and that the price charged on the bill is reasonable considering the conditions prevailing at the time of the transaction. And then when the Ohio Cement

Company has secured the judgment, it will have absolutely no trouble in collecting the money from a concern as solvent as the Baltimore & Ohio.

The situation is, however, vastly different with the railroads under Government operation. Let us assume that now Mr. John Smith is the Regional Director of the United States railroad administration in charge of the lines which formerly comprised the Baltimore & Ohio system.

The same flood occurs and he sends a telegram similarly worded to the same Ohio Cement Company. The Ohio Cement Company has been careless enough to think that it is safe in dealing with the new owner and has delivered the cement. Then it sends in a bill and notifies its creditors it will pay their bills in a short time as soon as it collects from the Government.

But there is many a slip between the cup and the lip, especially if the cup is of Government metal.

In the first place, the company is apt to find that it cannot be paid because there was no contract between the railroad administration and the company. The telegram from the Regional Director in the absence of special laws to that effect constitutes not a contract but in the eyes of the law an absolutely valueless document, as has been officially stated in other connections by the Treasury Department recently.

The only recourse then is for the Ohio Cement Company to try and secure a contract after it has delivered the cement, which means that it will be entirely at the mercy of the railroad administration.

Then it may easily happen that by the time the Ohio Cement Company goes to secure the contract, the railroad administration may find that as a matter of fact it never did need the cement at all, and there is nothing to prevent the railroad administration from refusing to grant such a contract to the Ohio Cement Company.

But there are courts in the land, you will say, and the Cement Company can have recourse by suing. Suing whom?

It can sue Mr. John Smith personally, and if it succeeds in getting a judgment, which is extremely improbable, it can collect from him personally. Unfortunately, however, in order to secure the judgment from Mr. Smith the Cement Company would have to prove that he acted with malice or gross negligence, which of course could not be proven, because he acted not only without malice or gross negligence, but in the best manner possible according to his opinion.

Then again it would have to prove that he either profited by the

delivery of cement or had in mind to do so, which again isn't true because he used the cement for the good of the railroad entrusted to his care; hence, there is no ground for a suit against Mr. Smith personally.

On the other hand, the owner of the railroads, the United States of America, cannot be sued at all without its consent, which would have to be secured by act of Congress. Assume, however, for the sake of argument, the further unlikely thing that such consent would be granted. Then the Cement Company would have to sue the railroad administration in the Court of Claims and might secure judgment in about 15 to 20 years at a cost several times exceeding the cost of the cement delivered to the railroad. But securing a judgment in the Court of Claims does not mean yet getting the money because after such a judgment has been secured, the money must be collected and that can be done only where the money is available.

Now the United States of America is very careful in preventing clever people from collecting money from the public treasury on fake claims. Even after a claim has been passed and adjudged by the Court of Claims, the money to pay it has to be appropriated by a special act of Congress, who may do so and again may not.

In other words, in a clear-cut case of an informal contract, in 99 cases out of 100, a private railroad company would pay the bill (provided the contractor behaved properly) without a murmur, and where it didn't do so, the contractor would have but little trouble in securing a judgment and payment for his work or merchandise.

On the other hand, with the Government in a vast majority of informal contracts the contractor is entirely dependent on the good will of the officers of the Government with whom he is dealing, these officers, however, being in no wise personally responsible for anything that may happen in this connection. The contractor has practically no standing in court, and even if able to secure a judgment, will still be dependent on a special appropriation in order to collect his money. At best he stands the chance of either losing it entirely or having to wait for it for periods varying from 5 to 25 years or more. This is by no means an exaggeration, as claims arising from the Civil War took even more time to settle.

To sum up, the whole situation appears to be as follows:

If the Government goes into business on the tremendous scale which the ownership of public utilities, and especially railroads,

involves, the Government ought to be subject to the same rules of business ethics and the same responsibility before the courts that any private corporation is subject to.

The "soulless" corporation has been many times criticized because it was supposed that it is not bound by the ordinary rules of moral restraint and so might commit acts which a decent citizen would not dare commit.

Because of this, the growth of corporate organizations was decried as being a menace to the democracy of the country and it was justly claimed that if these corporations should grow to such an extent as to secure control of the major industries, or if enough smaller corporations could combine with the same result, the democratic rule of the country would cease. That is the basis of all the talk against the money trust, Wall Street domination, etc. But at worse the corporations were always subject to all the civil rules and laws of procedure to which every other citizen is subject. They had no privileged standing in the courts of the land, and what is more, they were officered by men of undoubted ability, usually large personal means and desirous of maintaining their standing in their community.

Railroad ownership by the Government would create one tremendous corporate organization with powers vastly exceeding any that the greatest trust could aspire to, with privileged standing in the courts and officered by men usually of small personal means, in the majority of cases professional politicians, as to whom the courts of the land have decided that no man with a thin skin can aspire to be in active politics. - In other words, a professional politician is a man who must be prepared to be abused, because apparently the activities of the politician are such as to make abuse inevitable. Government ownership of railroads means that practically all the basic industries of the country will be at the mercy of men of that stamp, without remedy from the courts of the land.

CHAPTER IX

CAN THE RAILROADS BE KEPT OUT OF POLITICS?

At a recent sitting of the United States Senate former Director General of Railroad, Mr. William G. McAdoo said that the railroads must be kept out of politics. It is very important to analyze whether this can be done under government ownership.

There can be scarcely any doubt that Mr. McAdoo was perfectly sincere in his statement and the truth of it is likewise beyond doubt. The railroads are such an important tool of national life that any political interference with their operation and management must result most disastrously both for the country and also for the party which would create such an interference. And it can be hardly doubted that should the railroads become Government owned they would be taken into politics in a most thorough-going manner.

Whatever may be said as to the conduct of the war, the conviction remains pretty clear that even in such a vital period of national life when the very existence and future of the country were in the balance, the political game continued as strongly as ever. Republicans were drafted into the army: they bought Liberty Bonds and Savings Stamps, subscribed to Red Cross and other drives, uniformly voted for all war measures in Congress, and yet they were not permitted to take a part in the conduct of the war corresponding to their contributions to its success. The cabinet remained strictly democratic, and whenever a Democrat could be found to fill an important position he was invariably appointed. It was only where a Republican was absolutely the only man who could be used that he received a position of importance, and even then an effort was made to find a Republican as little prominent in the affairs of the party as possible.

If the present administration could not keep the war out of politics, is there the slightest hope that the railroads could be kept out of politics?

In this connection it is of interest to note that in the last few years the system of political spoils has been applied with perhaps even greater ruthlessness than ever before in the preceding five or six administrations. An interesting example in this connection has been

published recently in the New York Sun where was given a list of inspectors of explosives appointed by the present administration, from which it is found that for a position requiring above all special knowledge, created to protect the lives and property of people, out of 48 appointees, less than 10 per cent possessed the qualifications essential for the performance of their duties. The majority never had any experience with explosives or any training for their work, and would be plainly useless, if not dangerous in the performance of their duties.

In making the above statement there is no desire to criticize particularly the Democratic Party. The point is simply that this party came into power after a long period of job hunger and was a little more anxious for "eats" than would have been a party which has been in power long enough to satisfy the appetites of its most active workers. It is difficult to expect anything very much better should the next administration belong to the other great party which is now and has been for the last six years out of power.

While there may be in both parties men who can see the great danger of applying political methods to railroad control and management, there is no doubt that if the railroads become Government-owned, they will be in politics from the start. Politics in America is a very practical sort of business where results count above all, and the question of means is limited to what is successful and is not distinctly prohibited by the criminal law, and even then there are very few State, and practically no Federal laws to efficiently prevent corrupt practices in elections.

It is practically impossible to believe that the Government, having means for swinging to it several million votes, would refrain from using them because of the conviction that railroads should be kept out of politics. Besides, even if the central administration should decide to keep the railroads out of politics and should miraculously have the courage to adhere to such a decision, the railroads will inevitably figure in local elections. *The fact that the railroads are under a single control, and the further fact that through railroad ownership great industries are likewise controlled, will unite in one hand a power so great that the very fact of its being in one hand will become a political factor of stupendous potentialities.*

Indeed, one can see how very soon the Director-General of Railroads, if inclined to listen to the humming of that seductive animal known as the Presidential bee, will have no difficulty in building up a political machine which would easily sweep the country in his favor. With two million men directly depending on him for their well-being,

four or five million men in the controlled industries likewise looking up for "the full pail and prosperity" to the same magic person, a big machine spreading its tentacles through every State of the Union from Washington down to the smallest hamlet in the far-off States, with tens of thousands of lawyers, station agents, railroad detectives, etc., on his pay roll, the Director-General would represent a vote-getting power so great as to make it practically certain that he could secure his own election or the election of any man to whom he would choose to throw his great influence.

It would not be at all surprising if with Government ownership we would soon see a new political rule of sequence in office by which the Director-General of Railroads would follow the President in his office, or what is even more likely to happen, would appoint a puppet as a President, so as to continue himself in the exercise of the real power.

This wouldn't be the first time in history that an office which gives real political power would become the dominant force behind a figure-head monarch, and the fact that the monarchs of America are elected every four years, does not change the real situation.

The railroads cannot be kept out of politics because the temptation to use them for political powers is so great that it is unbelievable that the generation now in politics would withstand it. When human nature changes, when men will go into politics without thinking of personal advancement, when in short, the lamb will be safe lying side by side with the lion, then and only then would one expect that the railroads, if Government-owned, would be kept out of politics. At present, however, we see from the lesson of the conduct of the war that to the men in politics now everything is right that brings home the bacon and is not contrary to the laws of the land, and to give a political tool of great power to such men and hope that they would forebear using it, would be to show an entirely unjustified confidence in human nature.

There may be mothers who would take a chance of leaving 8 years old Jimmy and a pot of jam alone with each other, but a wise mother will always know that the only way to protect the jam and Jimmy's stomach is by keeping the closet door shut and the boy on the outside. This may be a rather homely illustration of a great subject but the moral is the same in both cases. The only way to keep the railroads out of politics is to keep the Federal Government out of the railroads.

CHAPTER X

GOVERNMENT OWNERSHIP AND DEMOCRACY

As at present constituted, the United States represents a political structure in which the forces are so balanced as to prevent any group or class from securing such a concentration of power in its hands as to make it possible for it to rule the country. In the first place, the whole country is divided into 48 States, each having its own set of political and economic problems and each enjoying sufficient independence and a sufficiently large part in the general government of the country to make it impossible to control the country without controlling the politics in at least a majority of the States.

Even if a group of men should arise wealthy enough to control some of the basic industries of the country, there would still remain the great agricultural States of the Union which could not be so controlled, as agriculture is now carried on in a manner which makes its concentration in the hands of a few people impossible. Neither are we in the United States of America any longer afraid of money trust domination because the wealth of the country has been found to be so tremendous that any possible concentration in the hands of a few individuals who might develop the idea of using it for the control of the country could not amount to more than a very slight percentage of the total wealth of the country. A country which in two years has absorbed 17 billion dollars' worth of Liberty Bonds, a couple of billions of War Savings Stamps and Thrift Stamps, in addition to paying the greatest taxes known in the history of the world; all this without disturbing the industrial relations, can see with equanimity the concentration of one or two billion dollars in the hands of a small group of people.

Likewise the country is not afraid of being dominated by any labor organizations, because here again the number of organized labor which could be used for such purposes would amount to not more than 1 per cent or 2 per cent of the total population, and even that would be concentrated only in a few industrial States, and hence could not affect the political coloring of the great agricultural states.

The only possible danger to the democratic institutions of the

United States may arise from a force having the ability of controlling the political life of the entire country, that is, of both the Federal Government and of the Government of every state in the Union, and the only force that would satisfy these conditions is the central government of the country itself.

At the time when the American Constitution was being evolved by the Fathers of the country, there was a very distinct apprehension in certain circles that such a case might arise and that the central government instead of being the servant of the people might become its master. At that time, however, the economic conditions of life were such as to make such apprehensions rather premature, and wide powers were given to the Federal Government largely because of the realization that as matters stood it could not abuse their application. This proved to be a wise course, and during the 150 years of the existence of the Union the great powers vested in the Federal Government have been on the whole used with moderation and for the good of the country.

The Lincoln formula, "Government of the people, by the people, and for the people" represented on the whole the expression of actual conditions as they were. The situation changes however entirely with Government ownership of public utilities.

The great protection for the people against a central government which is endowed with wide discretionary powers is lack of physical power on the part of the Government to enforce such orders as would be against the democratic spirit of the nation. The central government of the United States in the past did not have such physical power. It had practically no standing army, and very little right to use it against the citizenry. It came in contact with the ordinary citizen only at very few points in the life of the latter, and even there the powers of the Federal Government were pretty well defined. Before the war the only points where the ordinary citizen came in contact with the central government was in the forwarding of the mails and the regulation of interstate commerce. A citizen could also get seeds from his Congressman or some help from the Department of Agriculture. He could get free the publications of the Bureau of Mines, Bureau of Labor and similar institutions. If he went abroad, he sometimes secured a passport from the Department of State, which was done, however, by mail and was merely a bothersome formality enforced, moreover, not by the American Government but the backward governments of the Old World. Apart from that, in his business, in his education and his daily life, the ordinary citizen

came in close contact with his State institutions, but practically never with the Federal Government. Because of this, the Federal Government was something a little bit mysterious, presumably very powerful, but existing really outside the life of the ordinary citizen. This Federal Government interfered in riots when they got beyond the powers of the State authorities, and usually the very fact of its interference stopped the riots. The Federal Government investigated and sometimes prosecuted trusts and conspiracies in restraint of trade, of which the ordinary citizen read in the papers and seldom expected to see definite results. On the whole, however, the Federal Government was a part of the country's politics but in no wise a part of the life of the ordinary citizen.

The question of preservation of democratic institutions was largely a state and local question. In California some people claimed that the democratic institutions were in danger of being abolished by the domination of railroad interests. In Colorado the same danger was claimed to arise from certain mine groups. In New York and Philadelphia political bosses were claimed to have secured such a vast power as to nullify the free expression of the will of the people. Everywhere, however, it was mainly a question for the citizen himself and it was plainly intimated that if the citizens should arise and exercise their right of free voting, they could (and in some cases ultimately did) overthrow the powers that threatened to take away the freedom of their institutions.

With Government ownership of railways the country is apt to meet with an entirely different situation. The central government will then possess a direct power of regulating the wages, and in this way the conditions of life of about two million people. Moreover, as a vast majority of the railroad employees are not really highly skilled men, but semi-skilled, or belonging to the so-called clerical classes, it would be comparatively easy for the party in power at the time when the railroads are taken over, to replace in the railroad service those belonging to the opposite party by its own adherents, thus creating not only a powerful industrial machine but also a powerful political machine with a concentrated voting power that could be used not only in Federal but also in State elections.

Furthermore, the same railroad administration would control indirectly many of the basic industries of the country, and in this way would have the ability of concentrating around it such an amount of capital as has never been dreamed of before.

A money trust organized by a few bankers in defiance of the laws

of the country and under fear of indictments and criminal prosecutions cannot be very dangerous. In the first place, there are great industries which do not have sufficient interest in such combinations to risk the very unpleasant results that may follow the discovery of their participation. People do not go into criminal conspiracies for the sake of adventure. They do it only if and when the advantages of such an arrangement are so great as to outweigh the possible danger, and as a rule the greater industries of the country can go on very well without entering into such conspiracies.

Then again many of the leaders of large industrial and commercial undertakings would personally be very much averse to entering combinations which in the eyes of the law of the land are considered to be illegal. Most of such men are wealthy, no more very young, occupy a high standing in their communities and like to enjoy the respect of their fellow citizens. Even if participation in the various so-called trusts would bring them more money, many of them realize that a clear conscience and the ability to look every man straight in the face is worth more than an extra million of two in their bank balance.

The early trusts were largely an outcome of conditions which made their existence imperative. At the time of the most unrestricted competition, a combination on one side practically forced the other side to combine likewise, and when an industry or a string of industries gradually resolved into two warring camps it was but natural that these two groups should ultimately combine into one, thus creating those monopolies in trades and industries which have finally lead to the fight upon trusts of the last 15 or 20 years. A good example of such a process, first, division of certain industries into two warring camps, and then gradual combination of the forces previously so divided, is the formation in the end of the nineties and beginning of the present century of the so-called Morgan and Rockefeller groups of interests and the ultimate combination between the two groups.

The trusts however could never constitute a real danger to the democratic institutions of the country, first, because they were not powerful enough; second, because for reasons stated above, various important industrial groups kept out of them, and finally, which is most important, because the very existence of the trusts was quite precarious and they could be dissolved by a simple order of court. Hence unless and until the trusts had become so powerful as to control the Federal Government, they did not constitute any real danger to the Nation, and hitherto the control of the Federal Government

by the trusts was absolutely impossible because the Federal Government itself was a party government depending largely on the results of elections in all the States of the Union, a matter which could not be controlled by any trust.

But with Government ownership of railroads the situation changes most fundamentally. Government ownership of railroads implies, as has been shown in another chapter, government control of the basic industries, and that means that the basic industries or rather the corporations representing them, would be forced into politics. A combination of the great steel corporations with the great coal corporations and the locomotive corporations and lumber corporations and cement corporations and electric corporations and all other corporations working for the railroads could not be effected today in the form of a fifty billion dollar trust, but it can be easily effected with the Federal Government as the central hub.

The Transcontinental Steel Corporation or the Intermountain Oil Company have personally but very little interest in the outcome of the elections in the State of Kalawassa. It is true that both of these corporations maintain large plants, the steel company at Albion and the oil company at Venice. They have about 40,000 men employed and some 100 or 150 million dollars invested. Because of this they maintain a small lobby to take care of legislation directly affecting their interests, but since the State of Kalawassa clearly realizes the great benefits which accrue to it from the activities of these two corporations, the relations between them and the people are quite friendly and essentially the two corporations are out of politics. The Transcontinental and Intermountain are not particularly interested in whether the Governor of the State is a Democrat or a Republican, provided he is a broad-minded man with a clear realization of what is good for the State of Kalawassa.

As regards Presidential elections or elections for Congressmen and Senators, the Intermountain and Transcontinental have no interest whatsoever.

This was, however, only as long as the public utilities remained in private hands. Both the Transcontinental Steel and the Intermountain Oil have extensive dealings with the railroads, in Kalawassa and elsewhere. They sell steel rails, bridges, fuel, oil and lubricants to the various systems in their vicinity and also carry immense amounts of freight both in and out of their plants. They have business dealings with the majority of the railroad systems, but don't care in the least whether the purchasing agent for the X & Y

Railroad is a Democrat or a Republican. Neither does the purchasing agent pay any attention to whether the directors of the Transcontinental or Intermountain belong to one or the other political party. What both are interested in are technical specifications for the materials, terms of delivery and prices on goods.

Such idyllic conditions cannot, however, continue long after the railroads have become Federal property. The central government desires, of course, to run the railroads in the best possible way and therefore wants to buy for them the best supplies at the lowest possible price. But in the eyes of the central government the welfare of the railroads will be necessarily subordinated to the welfare of the political party in power, since everything else has always been subordinated to it. In order to avoid all misunderstandings it might be well to say that the writer does not wish to imply by this a reflection on any particular political party, as he considers that all political parties are governed by the same laws and rules of conduct.

The railroad administration is willing to buy good rails at a reasonable price from the Transcontinental Steel Company but it wants the company in addition to delivering the rails, to be also a good friend of the administration. The Transcontinental may express its good friendship in two ways, by being absolutely neutral between two parties or by doing all in its power to actively support the party in power. It is very doubtful if absolute neutrality on the part of the corporations will gain it the favor of the party in power. "Those who are not with us are against us" is a rule of political life pretty well recognized at election time. It is only by active participation in elections in favor of one or another party that a corporation can show its friendship, and sooner or later the corporations will be forced into it.

If the railroad administration lets it be known to the Transcontinental that the further volume of business given to the corporation will depend on what the corporation does for the party, there is but very little doubt that the Transcontinental will see the light and do its best for the party in power.

In fact, it is very likely that the tip will come from the other side. Government ownership of public utilities will place such a vast power in the hands of the central government to make or break any business organization in the country that it may become of vital importance for the great corporations having to do with the central government to take steps in order to see that the men in charge of the administration of public utilities are at least friendly to them.

The Transcontinental Steel Corporation and the Intermountain Oil Company may not like going back into politics. They have tried it some twenty years ago, found that in the long run it doesn't pay, and were very glad indeed to be able to step out of it. Bill Smith of the Transcontinental and Jim Daly of the Intermountain are now fairly old men, very rich, church wardens and presidents of the reform clubs in their cities, have daughters well married, and sons in large business affairs for themselves, and are rather careful about their name. They remember the time when they had to meet secretly in little hotels in the small towns and to burn their correspondence every month. They also remember how only by a little technicality they escaped jail sentence under the Sherman Law and were let off with heavy fines, and they don't want to go through it again, but there is talk about Archie Dunbar being appointed Director-General of Railroads and they know that Archie Dunbar is nothing but a politician without any business training or knowledge, an enemy to every successful business man or enterprise, and a man who would willingly ruin the country to secure the applause of his misguided followers.

Bill Smith and Jim Daly know that with Archie Dunbar as Director-General of Railroads their enterprises, built up by years of effort, will be ruined in no time. In fact, one of the claims of Archie for occupying the position of Director-General of Railroads is that he is going to use that office to introduce a sort of Bolshevik government in America and that he will ruin every capitalistic corporation.

Facing an emergency of that nature, Bill Smith and Jim Daly get out their political gear and jump into the fight with a view of supporting Sam Terrett, who is a well-known business man of high standing and who would give a fair deal to everybody around. Sam Terrett becomes Director-General of Railroads and then it is a case for Bill Smith and Jim Daly to stay in the fight and keep Sam Terrett in the saddle at first for their own protection and then for their benefit.

As a matter of fact, after Bill Smith and Jim Daly manage to get appointed a man who would be at least not inimical to them, it is only a step to see that the successor of Sam Terrett should be Honorable Richard J. Finn who was counsel to the Tri-State Banking Corporation, and as such would be heart and soul devoted to the interests of the Transcontinental and the Intermountain.

From that moment on, the Transcontinental, the Intermountain, and the United States Railroad Administration become practically one. Bill Smith and Jim Daly are now doing the very same things that they did twenty years ago but they are no more afraid of being

prosecuted under the Sherman Law, or in fact under any law, because now they are working with the greatest powers in the central government, and instead of fearing the Attorney General, are advised by him in all matters pertaining to politics.

A trust which is only an illegal combination of a few more adventurous souls in the industry may be undesirable, but is certainly not dangerous to the democratic institutions of the country. But a combination of the industries for the political domination of a party, grouped around a high office such as that of the Director-General of Railroads or the administrator of public utilities, may become powerful enough to nullify the whole democratic system of the country because such a combination would be protected against prosecution under the laws of the country, and therefore could do things which no ordinary trust would ever venture to do.

In addition to that, the country would face here an organization extending its tentacles throughout the entire country. Even assuming that the Transcontinental Steel Corporation and the Intermountain Oil Company try by their own efforts to build up a political organization, they can do so in Kalawassa where their main plants are located. In the neighboring state of Petrolia, however, the Transcontinental has practically no interest, while the Intermountain could get political control only by combining with Habberman lumber interests. But the Habberman interests while also dealing with railroads like the Intermountain, are selling their products to an entirely different set of companies, and anyhow do not want to combine with the Intermountain. Old Habberman remembers the time when he had a fight with Jim Daly and does not believe that Jim Daly has treated him fairly. As a result, a political bossship is created in Kalawassa, but the State of Petrolia remains free. As soon, however, as the public utilities pass into the hands of the central government the situation is very much simplified. Habberman does not now have to deal with Jim Daly. Both of them receive their orders from the same source and both of them are made to feel that their business life depends on their political assistance to the public utility administration as carried on by the central government. As a result Bill Smith in Kalawassa, Habberman in Petrolia, and other men in every State of the Union effect a combination. It is the big industrial corporations in the Eastern States, the mining companies in the West, the timber companies in the Northwest, the grain elevator companies in the agricultural states, all of them working together under orders coming from the party headquarters with the central govern-

ment that constitutes the only force capable of overriding the will of the people and nullifying the spirit of the democratic institutions of the country.

It is not claimed here that Government ownership of public utilities would immediately produce these results but it can be scarcely denied that it creates a ground on which the worst forms of domination by interests over the politics of the country can grow up.

The main purpose of this discussion is not so much to adduce arguments against Government ownership of public utilities as to show that the question of such ownership is not limited to what will happen to the railroads or telephones under Government management, but to what will happen to the entire country and especially to our democratic institutions. If there were a system by which the railroads and telegraphs and telephones could be really kept out of politics, as suggested by Mr. William G. McAdoo, the most potent arguments against Government ownership of public utilities would fall off. Furthermore, if Government ownership of public utilities could be carried out in such a manner as not to force corporations into politics, it could likewise be considered in the light of railroad operation exclusively. In other words, if Government ownership of public utilities could be introduced without sacrificing the very spirit of our democratic institutions, the question would be comparatively simple to decide, though even then there would be many arguments against it. The trouble, however, is that the United States of America as they are today could not continue to exist with Government ownership of public utilities.

A government of the people, by the people, and for the people cannot continue to exist forever if power to suppress it is effectively though not formally vested in the hands of half a dozen individuals.

We have already seen, even though full Government ownership has not been actively accomplished, a tendency on the part of the Railroad Administration to shape the court procedure to its convenience. The division of executive, legislative and judicial functions in our Government is a very thorough one and the separation of the three is considered to be one of the strongest bulwarks of democracy. If the executive branch of the Government could shape the policies and rules of procedure of the judicial branch, the citizen would have absolutely no relief against governmental operation. The executive branch has been given by our Constitution large, and to a certain extent, discretionary powers, partly because at the same time a deliberate effort was made so to organize the judiciary branch as to

make it as far as possible independent of the executive. This is why the office of Federal Judge was made one for life and the removal of a Federal Judge by impeachment surrounded with such guarantees that in the entire period of the existence of our Government, there has scarcely been a case when this was accomplished.

The executive branch has been given no powers whatsoever to interfere with the judiciary, and certainly given no power to determine the courts in which cases against it should be considered or the method of considering them.

And yet one of the earliest acts of the Director-General was an open interference with the course of the consideration of cases by the courts. By an executive order the Director-General designated a special system of jurisdiction for cases against the Railroad Administration, ordering that all such cases (contrary to the existing general rules of civil procedure) should be initiated either in the place of residence of the shipper or in the place where the actual damage on which the suit is based occurred. Of course this measure was taken under the guise of war necessity but it is a good indication of the whole spirit of Government ownership of public utilities which tends immediately to convert itself into Government ownership of the whole country with all its institutions.

The order of the Director-General as to the special jurisdiction for the railroad damage suits was so obviously illegal as to be in some cases neglected by the courts, but such a situation could be possible only today when the entire question of Government ownership is yet under consideration and where the Government neither has a clear title to the public utilities nor has had the time and means to build up an organization to enforce its dictation. When, however, the political machine then in control of the central government will have time to organize the voting power of the country, woe betide those who would dare oppose it.

Government ownership of public utilities must in the very nature of things become Government ownership of the country, and the entire question should be considered from just these two points of view, namely:

Can Government ownership be organized so as to be consistent with the democratic spirit of American political institutions? and

Is it worth while to jeopardize the very existence of that system of Government which helped this country to become the most prosperous, and on the whole most pleasant to live in in the world, for the sake of doubtful improvements in the operation of its public utilities?

CHAPTER XI

GOVERNMENT OWNERSHIP AND LABOR

The question of the way in which Government ownership of public utilities and especially railroads will affect labor must be considered from two different standpoints, that of labor itself and that of the national industries other than the public utilities.

From the point of view of labor itself again two different viewpoints have to be taken into consideration, that of labor employed by the Government and that of labor in the outside industries. The conditions of labor in the public utilities themselves may be considered first.

Since the Government took over the railroads, it has materially raised all wages, and has under consideration further raises. At the same time, however, the railroads have given a material deficit in operation which will have to be covered from the pockets of tax-payers. It is quite likely that if the Government remains in possession of the railroads, even these great raises in wages may not be the last ones, and still further raises may be carried through, bringing the wages of railroad employees to an unheard-of level. Whether it will be of advantage to the labor is, however, a very different question.

Railroad employees have hitherto been practically the best paid men in the country, which was only natural because conditions of employment on the railroads are quite exacting, require the best class of men, and admit of less soldiering than in any other line of industry. The railroader on the average was a self-respecting man doing his work conscientiously, living under good conditions and proud of his job. Government operations are everywhere characterized by the same feature, namely, employment of more men than are absolutely necessary, and the selection of employees not exclusively on their qualifications as affecting the performance of their work. The railroad company does not care whether the man in the signal tower is a Democrat or a Republican. All it cares about is that he should be sober while on the job, know his business and attend to his work. If it were in the least possible that the rail-

roads, once in Government control, would be kept out of politics, the same condition would continue to exist. As a matter of fact, however, this is an utter impossibility, and by the very nature of things, the railroads are bound to become an important, perhaps cardinal part of the political machine of the party in power. If at the same time the wages of railroaders are raised, there will be too much temptation for appointing to the better paid positions not the men who can best do the work but the men who can get most votes in the given neighborhood. It is a significant fact once referred to above, that when the present administration had to appoint inspectors of explosives in the 48 States of the Union, it has appointed in at least nine-tenths of the States men who had absolutely no experience or knowledge of the work for which they have been appointed. That the law concerning the sale and storage of explosives designed for the protection of the lives of the citizens was thereby nullified, did not make the slightest difference when it came to the selection of the inspectors, practically all of whom were named on the recommendation of the heads of the political machines in their respective States.

What reason is there to believe that when it comes to the selection of railroad employees, the same tactics will not be applied? But it may be said that this does not affect such skilled trades as for example locomotive firemen or engineers. There the qualifications are such that it would be absolutely impossible to appoint a political henchman, for example, to drive the New York Central, Limited. This is undoubtedly true, but does not change the situation the least little bit. A certain amount of skilled employment on the railroad will be probably kept out of politics as much as possible by the very necessity of things, but that does not protect the engineer driving the New York Central, Limited, in the very least. It is true that he cannot be replaced by some political henchman, but if that henchman is placed in the signal tower and comes drunk on the job and causes a wreck of a train, a skilled engineer may be killed just the same, and once killed he will derive no more benefit from his higher wages.

As a matter of fact it would be an extremely short-sighted policy on the part of railroad labor to consider only the question of wages and to stand for Government ownership only because the Government might and most likely would for a time, while the money lasted, pay more than private companies. The situation must be considered as a whole taking in all the conditions of employment.

Government control of railroads cannot be expected to increase the safety of railroad operation because the Government not being financially interested in the results of operation would not take the same care to avoid damage suits as do the private companies. Furthermore, the entire organization of Government ownership would be probably less efficient, because not being in a position, for political reasons as explained in another chapter, to pay the large salaries which could keep the best men permanently in the Government service, it would be compelled to employ only such men as would either be willing to work for lower salaries, or would look upon their jobs with the railroad administration as only stepping stones to something else.

The engineer who runs his trains past the innumerable signals, who passes over bridges and viaducts, crosses various tracks, works on a schedule prepared at headquarters, seldom realizes what an immense amount of vigilance and organization talent on the part of the railroad management is necessary to permit him to bring his train safely to the desired terminal. It is only when the management begins to deteriorate that trouble starts, and then it is the railroad employee who pays for all defects of management, by his life. We have seen such a situation only a few years ago on a great transportation system in New England, where mismanagement of the line brought things to a state making collisions, train wrecks, and accidents very nearly a normal thing.

Railroad labor represents a big organization in which the life and well-being of one man depends on what men around him do far more than on what he does himself. If a wheel or an axle have been accepted without proper inspection and have broken while the train was running, it is not the inspector who has his back broken but the engineer or the trainmen. And yet it is obvious that a private company which is in the business for money will organize its inspection system as efficiently as it can, because one bad train wreck may easily wipe out the profits of six months of operation on a good section of a line. On the other hand, with the Government it is all a condition of general work. There is nobody as a rule personally responsible for what happens and nobody particularly interested in the results. In the past year the Government had a deficit running into hundreds of millions and ascribed it to war conditions. In the next year the Government expects again to have a deficit of about a quarter of a million dollars, which is explained by higher wages. Whatever happens, an explanation will

always be ready, and since actual results are only a secondary consideration in Government operation one cannot expect from it the same untiring diligence which spells profits to the shareholder and safety to labor. Another point from which the high wages of labor employed on the railroads may be viewed is that of the purchasing power of their money. After all, the Government is not capable of performing miracles. It does not make the money which it pays to the railroaders and when it raised their wages 15 or 25 or 30 per cent it has to get this money from somewhere, and there are just two ways of getting it. One is by letting the railroads show a deficit and filling it up out of taxes. The other way is to raise the rates. Here again it is not the shipper that pays this raise. If the freights on steel are raised, the United States Steel Corporation does not have to pay. All it does is add so much, or usually a little bit more than the raise to the cost of steel charged to the jobbers. The jobbers add a little on their own and increase the price to either the retailer or the public. As a result, if the steel is to be used in the building of a house, the house will cost more than it would otherwise, and the landlord will compensate himself by boosting the rent. If the house has been rented for residence purposes the tenant will have to pay for it. If it was rented for business purposes, say for a department store, the department store again will not cover this increased rent out of its profits. It will add it to the price of the goods sold to the public. In this way and judging by the usual course of things, a hundred million dollars paid in additional wages to the railroaders will fall to the consumer as an added charge to the extent which may be conservatively estimated at 300 to 400 million dollars. The cost of living in the country will rise and with it the business of the country will go down, since any rise in cost of goods due to increased cost of production without an additional increase in the volume of production, must necessarily reduce production. The country will become poorer and in the final run even the railroad labor, who has to carry its share, will not gain much. This, however, affects the labor generally far more than it does the railroad labor, and for this reason. The railroad labor with its dependents constitutes between 4 and 5 per cent of the entire population, while labor generally, including agricultural labor, constitutes over 80 per cent of the population. Therefore if railroad wages are raised 100 million dollars without a corresponding raise in the volume of production, and if this results in an additional charge on the country of say, 300 million dollars, at least 80

per cent of it will have to be borne by the labor generally. In other words, Government ownership will create an aristocracy of labor paid at a scale much higher than that prevailing for labor generally, with the further feature that the differences between the normal scale of wages and the excessive scale paid to Government employees will be covered largely out of the pockets of the rest of labor. If we add to this that labor employed in Government controlled industries works generally less efficiently and less productively than outside labor, the injustice of such an arrangement will become particularly glaring. Men producing less than they ought to will be paid far more than those straining all their energies to attain the highest production possible, and the amount which those less efficiently working men are overpaid will be taken out of the pockets of the real workers.

It should be borne in mind that after all all wages and profits and maintenance costs of running the country have to be taken out of industry. If all the farms and factories produce in a year, say ten billion dollars, out of these ten billion dollars have to be paid the wages of all the men employed in the production, the profits of the capitalists, and the cost of maintaining the national plant, which means replacing machinery worn out and raw materials consumed, and putting in such new machinery as would permit increased production in the future. Outside of what the country produces there is no source for paying anything, so that if there is one group of men, whether capital or labor, which is overpaid, this can be done only at the expense of some other group, and since labor is far more defenseless than capital, any overpayment of some one group will be at the cost of labor. In this instance, it may be expected that under Government ownership the labor employed on the railways will be overpaid and it will be all other labor who will suffer from such a condition.

There are strong reasons for believing that under Government ownership labor will be overpaid. This is due to the following: In the first place, the Government being a political body concerned with the question of vote-getting, is always inclined to do its best to propitiate strong groups having common interests and apt to vote as a unit. Such a tendency to knuckle to the demands of organized groups has been well illustrated in the so-called Adamson Law, passed on the eve of the last Presidential election, as well as in the compliance of the Government with practically all the demands of labor in Government-owned plants, such as Navy Yards. In

this way an increase in the wages of labor on the railroads when not justified by actual conditions, assumes practically the character of a political bribe.

In the next place, the Government can better afford to make such advances in wages because it is not interested in the financial results of railroad administration. A private company has to consider the interests not only of the railroad but also of its bond holders and stockholders and could not advance the wages of labor beyond a certain point. The Government, however, may for a time do it with impunity by covering the deficits created out of general appropriations, which means out of the pockets of tax-payers. In a country as wealthy as this such a course may be continued for quite a long time, and while it will bring ultimate disaster to the national industries, it would be probably the next generation that would have to suffer, and when did an organization of politicians care about what would happen 10 or 20 years hence?

It appears therefore that from the point of view of labor, or in fact, any average citizen, Government ownership promises only a creation of a group of unreasonably overpaid men and of deficits which might easily raise the cost of living to prohibitive heights.

For industries from the point of employment of labor, Government ownership would bring disaster from the start. Labor follows somewhat the same laws as water in that the wages must maintain a fairly uniform level throughout the entire country. If wages in Detroit should rise 20 per cent above those in New York or Cleveland, men would promptly flock from Cleveland or New York to Detroit factories until there would be there a plethora of labor, and the wages would go down accordingly. On the other hand, if for some reason or other, the wages in Toledo should go down materially as compared with those in Pittsburgh or Detroit, men would begin to leave Toledo until those who remained would be in a position to demand higher wages. In this way sooner or later the wages throughout the whole country have to reach a fairly uniform level, which varies only because of the cost of living in the various sections of the country. In this way wages as expressed in dollars and cents may be lower in Connecticut than in California, but then the cost of living in Connecticut is also lower, so that the amount of comforts which wages can buy or the standard of living which they make possible would be the same and practically uniform from Connecticut to California.

It is absolutely impossible, however, to have in the same place

two groups of labor doing approximately the same work and receiving different wages, or rather it is possible to have it but impossible for such a situation to continue without trouble arising therefrom. If on one side of the street there is a private machine shop where men are making 45 cents an hour, and on the other side there is a Government-owned railroad shop where for the same work, carried on perhaps even less strenuously, men are getting 55 cents, the conditions in the private shop will not be pleasant to handle. The private shop having to make its living against competition and not having a national treasury to scoop money out for covering its deficits may not be able to pay higher than it does, and yet the labor in it will be in a ferment all the time, which cannot be helped if another industry, Government-owned, pays more than the private industries. It hardly needs telling that in the long run such a situation cannot help but be extremely harmful both to labor and to the industries themselves.

There is another angle from which the conditions of labor with the public utilities under Government ownership may be considered, and that is this. After all, wages essentially depend on the state of production. When things in the country are booming, capital goes into new business eagerly and there is a brisk demand for labor. Capitalists have to bid against each other to secure the necessary men, and wages go high. We have just gone through such a time and the conditions must be quite fresh in everybody's mind. On the other hand, when things are slack, people with money not only do not go into new enterprises, but as far as possible try to withdraw even from those in which their capital is already employed. Production decreases, there is less demand for labor, men are fired instead of being hired, unemployment is created, and wages go down. Because of this, labor perhaps more than any other group of the population is interested in the general industrial conditions. Now it is of course impossible to predict with absolute certainty what will be the ultimate outcome of Government ownership, but one thing may be predicted safely and that is that until Government ownership has proved itself to be better and safer for the country than private ownership, it will act as a deterrent on the development of new business. Bill Smith and Jim Daly have realized their war business with a fine profit. Before the war they were in a business which had something to do with railroad supplies. That business is, however, gone and they are looking now for new opportunities. Bill and Jim knew the railroad game pretty well and would go into

the cement business with the view to selling cement to the railroads. But with Government ownership they are rather afraid of doing it. In the first place, they do not know how the railroad administration will manage the purchase of its supplies and whether they will have to show that they are good Democrats before they can sell cement to the Government. They are afraid of such a feature, because what they want is to go into business and make money on the merits of their product and not on political boot-licking in Washington offices.

Further, cement manufacture is a business in which both railroad rates and railroad facilities play an important rôle. It is a business which requires handling of a vast amount of raw materials and fuel in bulk, and needs a lot of cars to take out the manufactured product. With private ownership they would locate their plant at a place where they would have access to at least two independent railroads and would be fairly certain of good facilities, but with Government ownership it is all a matter of uncertainty. It may be that the Government will prove to be just as good as the private companies, but if it does not and if Bill and Jim find that they cannot get cars or that the Government does not want to give them the necessary sidings, or that their products instead of taking seven days to reach the market take seven weeks, or that the Government does not want to assume any responsibility for the delivery of the cement in good condition, then their business would be ruined in no time. As a result, Bill Smith and Jim Daly decide that they will wait until the Government shows what it is going to do with the railroads and how it is going to handle the great business of transportation. And if Bill Smith and Jim Daly have not got all the money necessary, and go to a bank to borrow it, they may be advised to do so by the bank, or the bank may simply refuse to lend them the money, considering all industrial investments as being speculative until the question of ownership of public utilities has been straightened out.

This is by no means an exaggerated statement of the case. The ownership of public utilities involves such a tremendous change in the entire political and economic structure of the country that it is practically certain that investment of capital in a number of lines will be slow until it becomes clear just what changes will be produced by the new order of things. To labor that would mean decreased opportunities of employment and reduced wages at a time when the country faces anyway a stupendous task of converting its

industries from a war to a peace basis. It appears therefore, that outside labor, that is labor not employed on the railroads themselves, will suffer from Government ownership in two ways. In the first place, it will have to pay a large part of the difference between the normal wages and the excessive wages which the railroad men will be getting, and also will have to suffer from the increased cost of living which the excessive wages of the railroad men and high freight and passenger rates produced thereby will bring about. In the second place, the unsettled conditions in the investment market created by a scheme as ambitious as that of turning the property of some 25 billion dollars into Government ownership will also react unfavorably on the labor market by reducing industrial investments and hence, chances for employment. While Government ownership may create a group of men getting more than they are entitled to under existing conditions, as a general proposition it will not be profitable to labor and indeed cannot be profitable to labor because at best it will lead to wages paid out not of the product of labor itself but out of the pockets of tax-payers, and who are the majority of tax-payers, but the workmen themselves?

CHAPTER XII

THE BILLION DOLLAR PORK BARREL

One of the least glorious features of American political life is the distribution of the so-called pork barrel, which is the appropriation of moneys out of the pockets of the tax-payers for entirely useless improvements, the only purpose of which is to spend these moneys in the various sections of the country which have to be propitiated by politicians.

The pork barrel idea finds its expression in the expenditure of a million dollars on the deepening of a creek in Kalawassa which only had water enough to drown a cat. A post office in Albania which cost \$100,000 to build and handles \$2000 worth of mail a year likewise belongs to the same species of "political" expenditures. Hitherto, however, the pork barrel was of comparatively moderate dimensions, not because the appetites of the log-rolling breed of politicians were small, but because it could not be increased beyond a certain size without assuming the dimensions of too glaring a national scandal. Government ownership of public utilities will, however, make it possible to raise the size of the present pork barrel to undreamed-of dimensions.

At the time of the Panama Canal scandal in France, there was current in Germany a rather interesting story. It was said that a Frenchman in talking with German bankers told them that they did not have men big enough to swing a crooked deal of the dimensions of the Panama Canal, running into hundreds of millions of francs. One of the German bankers present strongly objected to it and said: "No sir, we have men big enough but we haven't got a Canal."

Government ownership of public utilities will provide a "canal" for those big enough to tackle the problem. There is no question as to the necessity of extensive improvements and new construction in our railroad system. Years ago such an authority as the late J. J. Hill said that the United States railroads need, to bring them up to what they should be, an expenditure of one billion dollars a year for five years. Since then, many years have passed, the country has grown enormously, and the railroads, starved out by the various

State and Interstate regulation commissions, have been unable to spend enough money not only to help the railroads keep pace with the development of the country, but in many cases even to maintain them in their original condition. The war, with its intensive use of the roads under rather unfavorable conditions, has reduced the physical efficiency of the railroad plant still more, and today the railroads need from seven to eight billion dollars to make out of them a transportation tool capable of taking care of the national demands.

It is therefore clear that if the Government should come into ownership of the railroads, and then ask the vastest appropriations imaginable for the improvement of the system, say, anywhere from eight to ten billion dollars, these appropriations would have to be granted because there is no doubt that the country needs them.

What the country needs, however, is not an expenditure of eight or ten billion dollars on railroads generally, but an improvement in the carrying capacity of the roads, which is by no means the same thing, although involving perhaps the same amount of money.

The danger is, and the past shows that it is a very real danger, that if the central government were given a sum of eight or ten billion dollars to spend on railroads, these expenditures would be made not so much for improving the railroads themselves as with a view to entirely different matters. Thus there is danger that politically doubtful States would be given the opportunity of being either starved or of coming into the ranks of well-treated, because well-behaved, from party viewpoints, communities.

Then again there is a danger that a good deal of the expenditures would go to States who have deserved this favor from the administration party by previous services. That such a danger actually exists is proved not only by the distribution of pork barrel, but by a great deal of what has occurred in the course of the present war. It is a well-known fact that camps for the training of the national army were located below the Mason and Dixie line not so much because of the climatic conditions of that stretch of the country but because the party in power had the welfare of the Southern States most closely at heart. In fact, some camps such as, for example, in New Mexico, have been located in places devoid of the elementary conveniences for the handling of large numbers of men.

There is therefore a serious danger than when the central government is left to its own devices with billions of dollars to spend, these expenditures will go to building up new industrial conditions in places where there is no reasonable background for their existence. Back-

ward States which do not need any material improvement in transportation, but which because of their very backwardness can be relied upon to vote the straight and the right ticket, will get the bulk of this money, terminals will be erected where there is no real need for them, and in general, railroad locations will follow post office locations, with small communities and cross-road towns being placed in a more favorable position than large towns which need these improvements.

In other words, railroad appropriations instead of being used for the improvement of transportation, which is the most essential tool of national development, will become only an electioneering device for the party in power.

This country is without doubt tremendously rich, but there are things which even the United States of America with all its wealth cannot afford, and that is to jeopardize the transportation system of the country. We have here an immense country with an enormously rich population, and our main market is at home. But also we have here conditions which make the welfare of the country dependent upon its transportation facilities. Our industrial States are mainly located in such a position that they have to get their raw materials from other States, sometimes from quite considerable distances, as we have found to our sorrow during the period of the war. Our agricultural states are located in the middle of the country and are dependent for the majority of manufactured products on the Eastern States, while the Western States in addition to their agricultural products, are the greatest producers of mineral products which makes them again dependent on the transportation system for the export of their products and for the importation of their machinery.

The whole history of the United States from the earliest Colonial days was dependent on its transportation. The wonderful growth of New York and the surrounding counties was due to the Erie Canal. The opening of the Ohio Valley was likewise due to improved water transportation. The steamship created the rich communities along the Mississippi, and finally the great Northwest and the Pacific States were opened by our railroad system.

Today the industries of the country have grown to such an extent, unequalled anywhere else in the world, that the slightest delay or disorganization of transportation would bring to the whole country untold sufferings. Already in the industries we are beginning to be cramped because of the inability of the railroads to keep pace with the demand for transportation, and we are beginning to develop what would have been under ordinary conditions competing systems of

transportation, but which are now merely supplementary to the main system, for example, transportation by trucks.

Under these conditions the improvement of our railroad system, such as would bring it to a state where it would be capable of keeping pace with the industries of the country is one of the greatest problems for the next ten years. We have allowed our railroads to become backward in their physical plant and we must improve them so as to be able to handle the constantly growing traffic of goods.

But if instead of double tracking a line between two important industrial localities in Pennsylvania where the traffic has already outgrown the existing facilities, we build a double track line in the swamps of Louisiana where the only passenger traffic will consist of Judge Smith and a couple of coons a week and where there is practically no goods traffic, we shall, it is true, spend the money on railroad improvement but we shall not improve the railroads.

There may be arguments in favor of Government ownership, but until it is proved beyond any doubt that this Government ownership will be organized in such a manner that the expenditures for the improvement of the railroads will be made absolutely devoid of the pork barrel feature, it would be a very dangerous plan to permit the Government to handle such vast sums.

✓ A private company is not likely to spend much money on pork-barrelism. A private company is in business to make money. It may change the location of its line to suit an industrial plant, which is only right, because an industrial plant will give it traffic, but you could not persuade today a private company to build a 300 or 400 mile line where there are practically no prospects of traffic. It is true that such things have now and then happened in the past, and lines were built where the expected traffic did not materialize, but such cases were honest mistakes and the lines were actually built in the expectation of traffic to come.

American railroading has hitherto remained entirely foreign both to the construction of military lines and of political lines. We have no lines which have been built for any other purpose but to carry goods and passengers, and that is perhaps one of the main reasons why, notwithstanding the checkered career of our companies, practically all of them are basically sound and can be made profitable under proper conditions.

The country has just now gone through a period of tremendous expenditures for war purposes, amounting to anywhere from 30 to 40 billions of dollars. We have contracted loans greater than was the

entire state debt of Europe before the beginning of the present war. We have added an item of interest and amortization on our loans of considerably over a billion and a half dollars a year, and we have raised our taxes to a level which would be ruinous for any country less fabulously wealthy than the United States of America.

Because of all these facts this is a time for wise economy of expenditures. It is not a time for cutting out all expenditures because after all the country seems to be in an excellent financial condition, has a great demand both inside and outside for its products, and boasts of sufficient available capital for all necessary expenditures, but this is a time when every expenditure should be carefully scanned, and only the necessary and constructive expenditures should be tolerated.

Above all, the coming years are not a proper time for pork-barrel spending. We are already beginning to face a time of unemployment and may have to close our shores to immigration from outside in order to give jobs to our own men. Under such conditions, to spend large amounts of money for railroads, terminals, and other works which are unproductive, is not only unwise but really dangerous for the very existence of the country. At the same time our railroads need to be improved and vast amounts need to be spent on them.

Whatever may be said about private ownership, there is scarcely any doubt that with the slightest public control of the expenditures, the private companies can be relied upon to spend this money wiser than would the central government. In the first place, the private companies have no interest in locating their lines elsewhere than where they are demanded by traffic conditions, because obviously the expenditures can bring increased returns only where they are conducive to increased volume of traffic or its cheaper handling.

In the second place, private companies will spend the money more uniformly throughout the country, and there would not be any concentration of expenditures in one section of the country.

In the third place, private companies would have no incentive to be guided by political considerations in the expenditure of their money, and finally the private companies would not be influenced by politicians in Congress and out of it in the selection of their improvements. In all of these respects the central government is in a much weaker position than the private companies. It appears therefore that government ownership of railroads would be conducive to a less wise expenditure of funds for improvements, and in fact to a creation

of what might be reasonably termed a billion dollar pork barrel. There can be no doubt that such an eventuality is the very last thing that the country would desire to have.

In this connection one may consider the plea made by former Director-General of Railroads, Mr. William G. McAdoo, for Government control of rails as a means towards the development of the inland waterways system.

Mr. McAdoo's argument is that it is futile to expend great sums of money on the development of our inland waterways unless our Government adopts an intelligent policy about railroad control, and that if railroads remain in private ownership, the cut-throat competition on their part with the partially developed waterways, will effectively destroy water transportation as heretofore, and the people's investment in these facilities will continue to be of little, if any value. Mr. McAdoo believes further that the Government should control the railroads and inland waterways so that they may be in turn co-ordinated with our Government merchant marine, which has been built at the cost of more than two billion dollars.

This argument is of striking interest as it reveals the psychology of adherents of railroad ownership by the Government. It is undeniably true that the development of our inland waterways cannot proceed efficiently unless their operation is co-ordinated with that of the railroads, but to claim that railroads under Government ownership can deal with waterways differently from what private railroads can do is perhaps to misunderstand the economic relations between these two systems of transportation.

Waterways may be divided into two classes; those essentially provided by nature and requiring only slight improvements and little maintenance expenditures, and those created by man at a large cost initially and requiring considerable maintenance expenditures. The first, such as the Great Lakes, the Ohio River and the Mississippi River, if located so as to provide a means for transportation of existing goods of a particular character, will always be able to compete with railroads. For example, no railroad system could be operated with any reasonable expectation of profit which would attempt to compete with the Great Lakes system of transportation of iron ore from Minnesota to Pennsylvania.

On the other hand, there are canals which still appeal to people thinking in historical terms of economic development. Just because canals proved to be extremely profitable and valuable in the economic development of England in the 18th century, and in America in the

first half of the 19th century, some people believe that canals can be made equally useful in the 20th century. They argue that if the Erie Canal with a 7 ft. gage has made an empire State out of New York in 1825, all that is necessary to produce the same kind of revolution in 1925 is to increase the depth to 12 ft., but unfortunately, economic laws do not work quite as simply as that. Canals were tremendously profitable and useful to the industries at a time when they represented the best existing form of transportation. They are not essentially a cheap or convenient form of transportation because their cost of operation is comparatively high and the time employed per ton mile of moving goods is also high. Further, canals have the great disadvantage of being in our climates a strictly seasonal form of transportation, and can be therefore used for the movement of goods which are in seasonable demand only or which can be conveniently stored. In this way canals could compete with dirt roads, which also are essentially a seasonal means of transportation, but except under very unusual conditions, canals cannot compete with railroads. Such unusual conditions exist to a small extent in England, and to a much greater extent in Germany, where the countries are small, the density of population very high, the climate fairly moderate and the volume of goods moved comparatively small, and where, what is most important, the rate of industrial operations is slow. In America where the distances are great, the volume of traffic greater than anywhere else in the world, and the industries are operated on a truly stupendous scale, the canals represent only a very subsidiary means of transportation. In fact, excluding the Great Lakes, the Ohio and Mississippi Rivers, which even now hold their own against railroad competition with comparative ease, the entire transportation capacity of the waterways of the United States is less than 3 per cent of that of the existing railroads, and even this amount is probably exaggerated, because the majority of our waterways at best have freight available for movement in only one direction.

That the fate of 97 per cent of national traffic facilities should not be determined on the basis of what should happen to the remaining 3 per cent, would have been perfectly obvious if the whole question of rail control were handled from the point of view of improvement in transportation and not from that of control of national life by a central organization.

It is further not quite evident how Government operation would help the waterways. All talk about coördination is vague and futile unless it is made clear how this coördination can be carried out. Now,

as matters stand, it does not appear that private railroads go out of their way to compete with the canals. The railroads are not allowed at present to make special rates in competition with water traffic during the time when the latter is available. We have no more seasonal freight rates in this country. It appears therefore that at present water traffic cannot compete with rail traffic while the latter is operating at its normal rates. It is therefore not clear how the Government could help out the canals. As a matter of fact this could be done in one of two ways only. In the first place, the Government could raise the rates on railroads wherever they compete with canals to such an extent as to make water transportation attractive to the shipper. In this way a certain amount of goods might be deflected to the canals at an entirely unreasonable cost to the country and at a great and unnecessary inconvenience to the shippers and the industries. Such a course would be obviously entirely inadvisable from the point of view of the welfare of the country, although it might, and probably may, be used so as to provide the advocates of Government ownership with a specious argument. The only reason why it would be done is in order to be able to point to the improvement in waterways traffic, which might appeal to the selfish interests of a certain section of the country. In fact, in his telegram, Mr. McAdoo states: "No part of our Union is more vitally concerned in this question than the great States of the Ohio and Mississippi Valleys, as well as those bordering on the Lakes, the Ocean and the Gulf. Many of their leading ports will continue to be starved and their development arrested unless they are given a chance under the impartial control by the Government of rail and steamship facilities." It is because of such arguments that the whole subject is here discussed in the chapter devoted to pork barrel politics.

Another way in which traffic may be deflected to canals is by taking over the canals by the Government, together with the canal boats, and lowering the cost of transportation to such an extent as again to make canal shipments attractive in competition with the railroad shipments. The past has shown, however, that this cannot be done without a great loss, which would mean that the Government would artificially and at the cost of the general tax-payer, provide a transportation at rates below cost for a certain class of shippers, which would be again only pork barrelism in a slightly disguised form.

In fact, it is believed that the whole subject of treatment of our inland waterways offers the most potent argument against Govern-

ment ownership. Considering the amount of money spent in the last fifty years on our inland waterways, we ought to have something really good to show for it. The trouble is, however, that vast sums of money were spent not on the creation of real inland waterways, but on pork barrel operations under the guise of waterway improvements. Until and unless means are provided making it absolutely certain that Government operation will not mean simply a billion dollar pork barrel, it should not be allowed, and at present not only is there no certainty that expenditures will be more economical and efficient in the future than in the past, but any unprejudiced observer of American politics can scarcely doubt that if the Government takes over our railroads and waterways the same policy of pork barrel distribution of appropriations will be applied only on an immensely vaster scale.

It is quite significant indeed that those who are so concerned about expenditures on our waterways being nullified by cut-throat competition of privately operated roads, have never taken a decisive stand against those other expenditures which were obviously wasteful and useless. To avoid all misunderstandings, it should be stated that there is no intention to throw any reflection on the sincerity of the plea of Mr. McAdoo in anything stated above, but this whole plea reminds the writer somewhat of the economics of the lady who went down town to a sale to buy a dollar lace collar which was sold at the bargain price of eighty-nine cents. She did save eleven cents, but spent two dollars for the taxi. The total investment in our waterways (excluding pure pork barrel appropriations) is less than 500 million dollars, and it seems rather far-fetched to try and govern the fate of the railroad investment of over 20 billion dollars for the sake of improving the returns on an investment as small as that. Here again it looks like the tail wagging the dog, and it appears that some people have no objection even to the tail wagging the dog provided the dog runs the way they want to.

The writer tried throughout this book to avoid personal references, but he ventures to believe that he has a right to make one personal reference at least in this place. The writer believes that this discussion of pork barrel politics as applied to Government ownership is perhaps the best proof of his impartiality in the consideration of the subject. As a matter of fact, the question will be largely decided by the votes of politicians in and out of Congress. The writer has made plain that Government ownership would mean a tremendously increased pork barrel with all the political advantages that this implies,

and he is inclined to believe that while thereby he may have taken away a certain amount of sympathy for Government ownership, he has also created a certain amount of it in the breasts of certain "representatives of the peepul of the United States of America."

CHAPTER XIII

ECONOMIES OF GOVERNMENT OWNERSHIP

It is alleged that the unification of public utilities and especially railroads under Government ownership will bring important economies in the cost of running and management of the roads. It would be therefore of interest to analyze the nature and actuality of such economies.

In the first place, it is claimed that the joint operation of all the roads permits such economies as, for example, the unification of ticket selling agencies. It is pointed out that instead of maintaining between 20 and 30 offices in New York City and Chicago, two or three offices would be quite sufficient under Government ownership. This is perfectly true, but the economy secured in this manner is so insignificant as not to be worth while taking into consideration in view of the tremendous volume of the total capital involved in railway operation.

Another and more important economy is claimed to be due to the fact that the unification of all the roads permits a more economical routing of freight traffic, leaving the concentration of long-distance hauls on a few lines instead of scattering it as has been done hitherto under private ownership. Here again there is a certain economy in as far as rail operation proper is concerned. Taking a case referred to elsewhere, the freight traffic between Omaha and Chicago, it would be certainly cheaper to have all this traffic moved over one line, for example, the Northwestern, than to divide it between two lines, Northwestern on one hand and Chicago, Milwaukee and St. Paul on the other. At the same time, however, a more careful analysis of the situation shows that such an economy is partly illusory and partly contrary to the best interests of the country.

The volume of traffic that can be safely re-routed in a manner to secure such an economy cannot be very large, and in fact a careful estimate indicates that at best not more than 1 per cent of the traffic can be deflected from its natural channels in a manner that would correspond to this new program. Moreover, it should be very clearly realized that railroad operation is not a business in itself but

only a means of helping the carrying on of the national industries. Therefore railroad operation should be considered primarily not from the point of view of economies to the railroads themselves but from that of influence on the development of national industries. From this point of view the system of artificially deflecting trade from one line to another, and in favoring one line while starving the other, is a most harmful policy because by starving a line, one inevitably starves also the country through which this line is located.

The deflection of long haul traffic to the Northwestern means not only an economy in operation of the joint two lines, the Northwestern and Chicago, Milwaukee & St. Paul, but also that the Northwestern will sooner or later have to be improved and reinforced in order to be able to handle the increased traffic. The improvement of the Northwestern will, however, mean that it will be able to handle better not only the long haul traffic but also the local traffic, while at the same time the Chicago, Milwaukee & St. Paul will be neglected, the number of trains on it reduced, and the handling facilities decreased. This will naturally tend to shift the industries from the influence of the Chicago, Milwaukee & St. Paul into that of the Northwestern, and will in fact nullify the capital invested not only in the Chicago, Milwaukee & St. Paul line between Omaha and Chicago, but also in the industries which have grown up around it, and the towns which have been built up on the promise of being able to utilize the road to its full capacity.

An economy secured in this manner is an excessively expensive one for the country and shows one of the disadvantages of Government ownership of public utilities in that, contrary to what might be expected, such ownership through unification of all public utilities in one hand tends to pervert the idea of public utilities and to cause to consider them as an independent and paramount enterprise instead of viewing them as a subsidiary tool, the only value of which lies in the help it renders to the carrying on of national industries.

A homely comparison may illustrate this situation. In a city rather widely scattered it would have been much cheaper to build just one trolley line going through the center of the city, with perhaps a couple of cross-town lines operating at right angles. Since the entire population of the city would have to travel along this one line, it would be easy to operate the line by cars at short intervals and loaded to full capacity. Whenever the conditions of city traffic are such that such a system can be well put into operation, the cars

will be full practically all the time, as we see, for example, in New York City in the Borough of Manhattan, which represents a long, narrow island and has ideal conditions for the operation of local traffic lines. Unless, however, the city is by natural conditions limited to one narrow, long strip of ground, such a system would inevitably stunt its growth, as the outlying districts would be deprived of all transportation facilities and therefore could not be built up at all. Taking again the New York comparison, the same system of one line going through the center of the city which operates so well in the Borough of Manhattan, would be entirely unsuitable for Brooklyn, which is a vast area about as long as it is wide and built up in all directions. There a concentration of traffic along one narrow strip of ground would be most inadvisable as it would result in preventing the major part of the Borough from reaching its natural development. Therefore economies in traffic would there result in a most unwise and undesirable form of underdevelopment of valuable territory. What is true of the Borough of Brooklyn is essentially true of the whole United States of America. Economies from rerouting of traffic are really not economies at all but a most wasteful destruction of the value of large sections of the country which are thus deprived of their legitimate means of development.

Another economy which has been claimed elsewhere, though not in the United States as far as we are aware, for Government ownership, is that unification of management would reduce the operating expenses. It has been claimed that one great Government department would cost less than the expensive corporate organizations which manage the railroads under private ownership. This may or may not be true, depending on the size of the Government department which will manage the roads. There are good reasons to believe that no substantial economies could be secured in this way, however, under American conditions. The country is so large, the traffic on the whole so dense, and the industrial conditions so varied in different sections of the country that even under unified ownership the management of the railroads would have to be carried on mainly through regional organizations, the cost of which would probably be not less than the cost of the present system of management. Superimposed upon it would be an immense department in Washington again representing quite an expensive item of operation, and what is more, for at least the next ten years (until the entire matter of compensation for the private railroads was straight-

ened out), the present companies would have to maintain their corporate organizations, so that for a long time there would be instead of a simplified and more economical system of management, really a duplicate and wasteful organization.

Finally, it must be realized that Government ownership would from the start impose on the railroads the handicap of a tremendously increased first cost of the plant. This is not generally realized and therefore may need some explanation.

When the Government takes over the roads by way of condemnation proceedings, under the right of eminent domain, it has to pay, according to the provisions of our Constitution, compensation to the present owners of railroad securities. The Constitution further provides that the compensation should be due, which means that it should be adequate, and it has been the universal experience, both in this country and elsewhere, that compensation under condemnation proceedings is always from 10 to 25 per cent and sometimes more in excess of the actual value of the property. This is only just. If widow Brown wants to sell her shares in the X and Y Company she must not expect to get for them more than these shares are actually worth today, which means the part represented by her shares in the total property of the railroad, and comprising the physical fair valuation of the road, its good will and prospects. Such a price for widow Brown's shares is due, however, to the fact that widow Brown herself desires to dispose of her property and is therefore in the same position as the purchaser of her shares, both of whom transact the business on the basis of today's cost of the roads. Widow Brown cannot expect to get for the shares what she believes reasonably her shares will be worth, say, five years from now, because the purchaser of the shares would tell her that if she wants to get that future price she should wait for five years and take her chances on either getting what she expects, or if something untoward happens, receiving a great deal less than she can today, and widow Brown for one reason or another either cannot or does not want to wait for five years, but wants to dispose of the shares at the price of today. The purchaser is in about the same position. He can buy the X & Y shares from widow Brown at the price which represents their fair value today but is not limited to those shares and can purchase the Z and W Railroad Company's shares from widow Black. In fact, he is not limited to railroad shares at all, and if he finds that the railroad shares for one reason or another are too high and that the prices demanded for them do not fairly represent their

value, the purchaser or investor can buy, say, the Transcontinental Steel Company's shares which are on the market at a more reasonable valuation, and this makes it imperative for widow Brown to ask for her shares only their fair value of today or perhaps a little less so as to make the price attractive to the investor. The situation becomes, however, entirely different when the Government applies force to compel widow Brown to sell her shares. Widow Brown properly claims that the present price of the shares including physical valuation of the property, good will and such prospects as are clearly apparent today, would not represent a fair price for her shares as far as she is concerned, because she can prove that she does not want to sell them in the free market to those who might buy them. Widow Brown is now perfectly willing to take the chance of waiting for a higher price for her shares for say, five years, and widow Brown has a moral right to do so. On the other hand, if the Government compels widow Brown to surrender her shares it ought to pay to her not only what she would have gotten if she wanted to sell her shares now, but what is the fair valuation of the shares from the point of view of a person willing and able to hold them for a future raise.

There may be two ways of treating widow Brown and all other owners of railroad securities at the time of taking over of their properties by the Government. One way is to say that if widow Brown gets for her shares from the Government what she would have gotten in the open market if she sold them, she ought to be satisfied, and that any attempt to hold out the shares for a higher price represents on the part of widow Brown undesirable speculation. This is not so, however, for two reasons. In the first place, even if this does represent an element of speculation, it is a legitimate form of speculation, one which keeps all our investment markets alive and makes it worth while for people with money to invest in industrial undertakings. If it became a rule of action that any person at any moment could be deprived of his property at the price which that property will bring at that particular moment, it would be highly unfair to the owners of property and act against investing in the American industries. If the Government or municipalities or States could at a moment of particular depression of the market take away the properties at the price which they would command if sold in that depressed market, that would be extremely unfair to the owners because a person who invests in a property should have the right to dispose of it at the time when that person

considers advisable and not at the time of possible unusual depression of the market when the purchaser wants to buy it.

Another point of view may be that the interests of the United States of America are to such an extent paramount to the rights of widow Brown that the United States has the right to give to widow Brown only such a compensation as would make the operation of widow Brown's property advantageous to the United States. In other words, widow Brown has no rights, and whatever the United States gives her for her property is given not because widow Brown is entitled to it but because from the point of view of the United States, widow Brown should have it in order to be able to continue in her enjoyment of the pursuits of happiness.

This view which has never been so baldly expressed, apparently underlies to a certain extent the expectation as to the price to be paid for the railroads by the government made informally by the advocates of Government ownership. It is a view, however, though in full consonance with the Bolshevik theories, utterly abhorrent to the principles of American democracy. In Russia today they are acting on this very principle. Factories, mines, banks, are being taken away from the capitalist classes for the benefit of the "working population" which under the Bolshevik view means the State. There, however, the State does not recognize that the capitalist classes have any title to their property any more than it would be recognized here under the above view, and since the Bolshevik Government does not consider the continued existence of the capitalist classes necessary, it does not pay them anything for their property.

The great factories and real estate of the International Harvester Company in Russia have been taken over by the Government of Lenine and Trotsky without a cent being paid to their owners. We have quite legitimately the right to consider such acts in the light of pure robbery. On the other hand widow Van Gulden of Rotterdam, Holland, has invested in 100 shares of the New York Central Railways 10 years ago. If the Government pays her not what the shares are worth to widow Van Gulden, who does not want to sell them in the open market, but what the Government considers that widow Van Gulden should have, irrespective of the value of the shares, there would be a difference in degree but not in principle between the two actions. The McCormicks have been treated by the Bolsheviks with a frankness which characterizes the robber in full power. Widow Van Gulden of Rotterdam would be treated with a

certain amount of circumspection, but neither would get the right price for their property.

As a matter of fact when property is taken over under condemnation proceedings, the owner of it is put to an exceptional inconvenience and hardship because his particular property is selected for public use. As a result he should receive not only the price which he would receive if he offered the property for sale or was desirous of selling it, but in addition a supplementary compensation for being deprived of his property at a time when he was neither willing nor ready to be so deprived of it. This is only just and fair. If widow Brown wants to sell her shares in the X & Y, presumably she either needs the money for some expenditures or desires to dispose of the shares in order to avoid possible losses by holding them longer, or finally, she may have in mind an investment which appears to her more attractive than the shares of the X & Y. In all three of these cases widow Brown is more anxious to have the money which she can get by selling the shares than the shares.

Under condemnation proceedings the position of widow Brown is, however, entirely different. She is perfectly satisfied to hold her shares but instead of that, she is forced to take a certain amount of money which she will have to reinvest in other securities, and this implies in the first place additional trouble in the selection of securities, and what is more important to widow Brown, an additional risk, since a new investment may not prove to be as safe or profitable as the X & Y shares, and widow Brown should be compensated for this additional bother and risk imposed upon her by the condemnation of her property.

From our knowledge of condemnation proceedings and compensation for property taken under them, it appears reasonable to expect that unless Bolshevik theories as to confiscation of property are applied contrary to the spirit of our Constitution and political institutions, the price paid for the utilities system will be from 10 to 25 per cent higher than what this system is worth today. Assuming the average value of the railroads, telegraphs, telephones and inland waterways to be roughly 25 billions of dollars, that will mean that the Government will have its property saddled with an additional burden of from $2\frac{1}{2}$ to $6\frac{1}{4}$ billions of dollars, an amount which the taxpayer will have to carry on his back for the simple pleasure of knowing that the title in the railroads and public utilities has changed in a certain manner, and what is more, a good deal of this additional expense will go into the pockets of foreigners who own

today the securities of American railroads. To talk about economies of operation under such conditions appears to be rather futile as it would take many years of "economies" to wipe out this additional amount.

CHAPTER XIV

GOVERNMENT OWNERSHIP AND THE SPREAD OF SOCIALISM

In ordinary times the fact that a measure is of a socialistic nature should not be used as an argument against it, but we are passing now through times which are not ordinary and therefore should use extra judgment as to the implications carried by any measures that we take.

State ownership of means of transportation was one of the cardinal doctrines of militant socialism since the days of the Communist Manifesto issued by Marx and Engels. But since 1848, society has made a great advance in the way of bettering the relations between capital and labor, and the old socialistic idea that the only solution for this problem is the complete abolition of the former has lost a good deal of its urgency. The socialistic idea that the State should own the major public utilities, and in particular the means of transportation, was an outcome of the economic views of the middle of the 19th century, when it originated. At that time the principle of *laissez faire* was dominant, and economists claimed that private initiative should be given unbridled development and that unrestricted competition would sooner or later iron out economic inequalities.

We have learned since then that unrestricted competition has ill sides as well as good sides and that in particular it cannot be permitted insofar as public utilities are concerned because of their fundamentally monopolistic character. At the time when socialism was created the only way out of the tangle in social relations created by unrestricted development of capitalism was seen in giving the basic industries of the country into the hands of the State, and it was further believed that if control of the State itself was taken over by the laboring classes, a new era of universal freedom and happiness would ensue.

The world has learned since, both in theory and in practice, that this is neither necessary nor feasible. There is a happy medium between unrestricted competition and State ownership, namely, private ownership under State regulation, and while such a thing would have been absolutely abhorrent to the industries in 1850, it is taken as a matter of course today. On the other hand, the world has also

learned that essentially the State is one of the worst administrators of utilities that can be imagined, and that moreover, it has always a tendency to misuse its power over public utilities for purposes which were not intended initially. It does not matter what the construction of a State is. Whether an autocratic monarchy or socialism carried to its utmost expression, the State if given unrestricted power, will use it for tyrannical domination over the people, and essentially the Governments of the Kaiser of Germany and of the Czar of Russia do not differ from the Government of Lenine and Trotsky. Both of them use their power for the suppression of the liberties of the people and both of them rule because of the power in their hands and not because of the consent of the peoples.

The world today is facing not so much a socialism advocated by sincere friends of labor and having for its purpose an improvement in the conditions of labor. If that were the case, socialistic movements would not be dangerous, and for example in this country one could rely on the common sense of the people to see their weaknesses. As a matter of fact, hitherto socialism has found only very little sympathy among the native Americans or indeed the English speaking part of the nation, and it is only from among the comparatively recent immigrants that the ranks of the socialistic army were recruited.

What we have to deal with today is not socialistic doctrine as such, but a propaganda financed and engineered from abroad and using socialism only as a cloak for doctrines and preachings having for their ultimate purpose not the improvement in the conditions of labor but the destruction of the entire social structure of this country for a sinister but perfectly definite purpose.

In the last three or four years the German Government has supported socialistic and anarchistic propaganda throughout the world, except within its own country. The purpose of such a propaganda was perfectly obvious. It was to destroy the cohesive forces in the countries opposed to Germany and in some of the neutral countries in order to make the remaining allies powerless to withstand the German armies. Had Germany been successful in this endeavor, it would have won the war, and from all indications the German Government has not yet given up the hope that it may disorganize the allied nations to such an extent as to make a second war possible with a better outcome than the last one.

There are numerous proofs of the facts stated above. The United States Government has published some few documents referring to

the use of German money and propaganda for the disorganization of Russia, and there are other data far more comprehensive than those which were published by the Bureau of Information proving the same facts.

The investigation carried out by the Italian Government in connection with the explosion on the Leonardo da Vinci and the defeat of the Italian armies of Caporetto, has shown activities of a similar nature in Italy. Documents published about a year ago in Spain have proved that the German ambassador in Madrid, Prince v. Rattibor, was supporting by large grants of money the anarchist organizations in Spain. That pacifist and anarchist groups in this country have been similarly supported from German sources has been shown by the investigation now in progress under the auspices of a committee of the United States Senate, while the court documents in the case of the *Bonnet Rouge* in Paris have indicated a similar connection between French anarchistic groups and the same German Government.

Under these conditions extreme caution is necessary in shaping the policy of the country so as not to give support to subversive theories preached by our enemies, and there is great danger that the adoption of the principle of Government ownership of public utilities would be of the greatest help in this very direction.

After all, fundamentally the advocates of Government ownership of public utilities in this country use the identical arguments which have been current now for over half a century among the most rabid socialistic groups. The basic idea is that private ownership is not only inefficient but cannot be made efficient, that the interests of the nation require that public utilities should be taken over by the State. The interest of labor are said to require it likewise which is exactly what the socialists have been preaching.

Furthermore, if it has been demonstrated, as the partisans of Government ownership claim, that private control of such utilities as railroads has been detrimental to the country, then what is the difference between private control of railroads and private control of such a basic industry as the production and distribution of meat? If the State should operate the railroads there is nothing to prevent the State from operating the plants of the packers, and we actually see that the same forces which advocate Government ownership of railroads also advocate either the most extensive Government regulation or direct ownership of the packing plants.

But there are other industries quite as basic as that of production of food, for example, production of coal and oil, which is at the base

of all production under the existing state of industrial development. Essentially the relations between the industry and capital are the same in coal and oil mining as they are in the railroads, and if railroads should be taken over by the Government there is no reason why coal and oil mining should be left in private hands, especially as once the railroads are Government-owned, they become the greatest consumers of fuel in the country and acquire a dominant position with respect to these two industries.

Former Director-General of Railroads, Mr. William G. McAdoo, has already stated that Government ownership of railroads should and indeed would be accompanied by similar ownership or absolute control of the internal waterways of the country, as well as "coördination" with a two billion dollar Government owned merchant marine.

And now Secretary of the Interior Franklin K. Lane wants to control the hydro-electric power in the New England States. Mr. Burleson has already secured temporary control of the telegraph, telephone and cable lines, and Mr. Daniels is trying to control the wireless.

We see therefore that Government ownership of public utilities will by natural steps lead to an entire socialization of the State, and here we are coming to the basic question, and that is, is this country to continue a free democracy or is it going to be a socialist autocracy, and if it is going to be a socialist autocracy, what kind of socialism are we going to adopt for the benefit of the American people?

There can be scarcely any doubt that a country in which the Government owns the railroads, the canals, the merchant marine, the distribution of meat and meat products, possibly the production and distribution of coal and oil, and where by these means the Government would have practically absolute control of all other industries, could not be a democratic Government any more. The hundred millions of the population of the country would live by and through the permission of the central government, which could at any time either through ignorance or deliberately ruin any section of the country.

Moreover, it is impossible to have a socialist Government system and democratic institutions. Wherever socialism was preached it was always stated as one of the doctrines, that socialists should support wherever possible an extension of the powers of the State because it was claimed that the greatest enemy of labor is, not the State but the capitalist class, and if the State could take away the powers of the capitalist class, labor would have no trouble in taking it away from the State. From this point of view socialists have sometimes wel-

came the concentration of wealth in the hands of a few individuals. It was said that let Morgan and Rockefeller gain all the wealth and power they can, because after these two men have come to own the country, labor would have to do with them alone and not with the whole powerful organized capitalist class, and that it would be easier to take away 200 billion dollars from one Rockefeller than the same amount of money from 100,000 little millionaires with the social organization back of them.

From this point of view, the partisans of Government ownership are playing directly, though probably unconsciously, into the hands of the socialists, which is all the more dangerous because we have no real socialist movement in this country.

If we had such a movement in this country there would be no harm in the fact that a certain group in and out of our administration is supporting it, although even then such a support should have gone frankly under the banner of the socialist party and not under that of the Democratic Party which has nothing to do with it. The fact, however, is that the American socialist group is essentially an imported product and, today, is a movement largely financed and supported by the enemies of the country and carried on practically entirely in the interest of our enemies. Under such conditions it would appear to be highly inadvisable to do anything that would lend support to such a movement, as does the present agitation for Government ownership. Moreover, if we are going to socialize the country let us do it frankly and with full appreciation of what we are doing, and that means that we should clearly understand and determine how far the American people desire to go in the process of socialization. There are several kinds of socialism. There is a moderate form which claims only that labor should receive its full share of the products of the industries, that excessive concentration of wealth in the hands of a few is dangerous for the welfare of the nation; that the property of the community, such as franchises, should not be given away to a few favored individuals without an adequate return either in service or participation of profits to the entire people of the community, and finally that the whole people should rule and not only a chosen few. Essentially, the program of such a moderate socialism does not differ from what is actually being accomplished under the structure of democratic institutions of the United States of America, which shows, by the way, the great flexibility of these latter and the possibility of achieving social justice within the bounds of our Constitution.

There is also another form of socialism which claims that the only producers are the working men, and which understands by working men only the shop hands and the farmers. The Bolsheviki of Russia, as well as the extreme socialists the world over, in principle cannot admit that the man with clean hands can be anything but a parasite in society and that whatever he has is secured either by guile or by theft. It is with this socialist movement that we have to deal, and it is such propaganda that constitutes now the greatest danger to the peaceful progress of our society.

It may be of interest to analyze to what class of socialism belongs the present attempt at the institution of a vast system of Government ownership in this country. (It does not matter in this connection whether such an attempt is made with a conscious realization of its socialist meaning or without it: in affairs of nations it is the results and not the intentions that count.)

The difference between the two forms of socialism represented for example in Russia by the Mensheviki or moderate socialist, and the Bolsheviki or extremists, lies in the following. The moderate socialist believes that the capitalist class can manage the existing enterprises better than could the State as it exists today. Therefore the moderate socialist does not desire to abolish all private ownership of industrial concerns but only to secure such concessions to labor as would give it its full share. It is true that both branches of socialism have as an ultimate goal the total abolition of private ownership of all tools of production, but what the moderate socialist looks to as possible at some indefinitely distant date, the extreme socialist wants to see accomplished right away in this year of Grace 1919, and is sorry that it could not have been done long ago. The extreme socialist does not believe that private ownership of industrial concerns is more efficient than would have been State ownership and believes that under the latter, production would increase and labor would secure a far greater share than it does now. The entire basic difference between the two branches of socialism lies in this fact, that the moderate socialist does not believe that the State is quite ready yet to take over the entire management of the industrial production of the modern complicated civilization, while the extreme socialists are absolutely convinced that it is. And here we are meeting with two facts which, while probably having no direct connection with each other, have to be considered together, and that is, that, first the basic view underlying the idea of Government ownership of public utilities in the United States is that of the extreme socialists, and second, that

the whole enemy propaganda in neutral and allied countries is likewise carried on under the guise of theories of Bolshevism which represent the same class of ideas.

In the United States of America we have now a group which claims that the Government which hitherto has never been in business to any substantial extent, is perfectly ready and capable to take over the railroads, telegraphs, telephones, submarine cables, wireless telegraph, merchant marine, canals, packing houses, and is likewise capable of exercising that practically absolute control over the rest of the industrial life of the country which ownership of its utilities involves.

Never in the history of the world has there been a similar attempt to overthrow at one blow the whole economic structure of a country and to replace it with another structure, except when the Soviet government of Lenine and Trotsky have taken possession of European Russia.

It is entirely immaterial in this connection whether the men who advocate Government ownership are friends or enemies of socialism and whether they do it consciously or unconsciously. The life of nations is subject to laws of economic and social development which within the sphere of their operation are just as immutable as natural laws. When the monk Schwartz for the first time started to pound in a mortar a mixture of charcoal, saltpeter and sulphur, he certainly did not expect an explosion, but nevertheless such an explosion occurred. Likewise it is impossible to carry through a series of acts which have always been considered as those essentially necessary for the socialization of the life of a nation, without producing certain obvious results.

In particular at a time like this, when the Bolshevik propaganda is backed by untold millions, and managed by one of the most unscrupulous Governments that the world has ever seen, it is impossible to pass measures essentially affecting the life of the country and in full accordance with the enemy propaganda, without giving that propaganda a tremendous support.

It must be realized that the nationalization of the railroads, waterways, merchant marine, packing houses, etc., in the United States of America will be hailed throughout the world as the greatest victory for the socialist ideas that has ever occurred. If in this country, which has been always reputed as one of the bulwarks of individualism, the people have found that private ownership has proved to be such a failure that it had to be discarded in practically every basic industry

of the country, and the State had to be given absolute control of the economic life, what argument is there to preserve the democratic institutions in other countries? If the United States of America after 150 years of uninterrupted existence, under what was supposed to be the most democratic institutions in the world, with a population having the greatest opportunities for the development of the individual, with the greatest per capita expenditure for education in the world, and perhaps the greatest natural resources that any country has ever seen, cannot evolve forces sufficient to take care of its basic industries without delivering them into the hands of the States, then it is an absolute proof that democratic institutions are a failure basically and that socialism is the inevitable ultimate goal of the present society. That is what the Germans would very much like to see proved — in America.

CHAPTER XV

GOVERNMENT OWNERSHIP AND NATIONAL PROSPERITY

It would be very difficult to say whether our economic position today is really good, bad or indifferent. On one hand the country had three years of business on an unprecedented scale. Nearly every plant was loaded with work to capacity and some even beyond their capacity. The wages were high, products selling at high prices, and the circulation of money extremely brisk. The basic industry of the country, agriculture, had an output close to record and sold it at record prices. All this would spell prosperity in ordinary times.

On the other hand, however, in the last two years the country was mainly working on war work, some of the industries going so far as to do 100 per cent of such work. The country has built up a debt of some 20 billion dollars and is not through with it yet. The taxes have risen to a height never known before, and may have to go up still higher. The cost of living has also gone up to nearly a breaking point. There is no very appreciable increase in savings, and while there is a considerable amount of investment capital available, notwithstanding the several Liberty Bond sales, this is due largely not to an accumulation of savings but to the fact that the majority of investment opportunities in the last eighteen months have been artificially withdrawn from the investing public.

As a result of all these circumstances, it costs more to do business today than it did ever before. The raw materials, buildings, and especially labor have gone up while it does not appear that the total wealth of the country has increased to a proportionate extent. It must not be forgotten that from an economic point of view there is a vast difference between productive and unproductive employment of capital. When \$1000 is spent in the manufacture of shoes sold to the civilian population, these \$1000 bring back proper returns. The shoes go to laborers, salesmen, doctors, engineers, etc., and help them to carry on their business, which they could not have carried on without these shoes. The case is still more strikingly

clear when these \$1000 are spent on let us say, lathes for civilian use. These lathes are then used to produce goods which otherwise either could not be produced at all or would take very much more time to produce by primitive hand methods. As a result an expenditure of \$1000 in lathes returns to the country many times its worth.

But an expenditure of the same \$1000 in 6-inch shells or military aeroplanes does not bring the country similar returns, even though it is highly justified from another point of view. The country gets a certain amount of protection thereby and the expenditure is necessary in a way, and yet the shells produced or military aeroplanes manufactured do not help in carrying on the business of the country.

The case of productive and unproductive expenditures of a nation is somewhat similar to that of an individual. If a tailor buys a sewing machine for \$100, it enables him to produce more goods or to produce the goods in a better manner. Therefore he increases his income to an extent which compensates him for the expenditure of these \$100.

On the other hand, if the same tailor gets into a quarrel with the man across the street, and strikes him, and is fined \$100 by the Judge, with an option of 15 days in jail, he also spends \$100 but it does not bring him any returns because he would have been just as well off if he did not have the misfortune of quarreling with his neighbor.

Now, in the last two years the country has spent some 25 billion dollars at the very least in that unproductive manner. The expenditures were highly necessary, as they have saved the democracy for the United States and the world, but nevertheless they have not increased, at least in the present, the productive capacities of the country and it is possible that the prosperity which we see on every side now may be a prosperity based on a false foundation and may be followed by a considerable depression when we start to pay up the debts and expenditures contracted during the last war.

There are good reasons to believe that no great depression will occur if the national business is handled in a proper manner. The United States is coming out of the world struggle in a better position than any of the other large countries. While its expenditures were tremendous, it remained free from devastation such as has stricken France, Belgium and Russia. It has not lost as many men and property as either England or Germany. Its industries are physically in an excellent condition, and what is more important,

its position as a producer of raw materials and agricultural products, in addition to semi-manufactured and manufactured goods, gives it a tremendous advantage at this period when the demand for these materials is so insistent on all sides.

There is as yet no basis for any specially gloomy forebodings. We are liable to face a certain amount of unemployment during the period of transition of the industries from a war to a peace basis. Essentially, however, it is reasonable to believe that this country will come through the next few critical years at least as well, and most likely better than any of the great nations of Europe. At the same time, however, our prosperity is not on such a strong foundation that we can take chances with it. The American industries in the last three years have been really working for a foreign market; in the first two years of the war, for England and Russia, and in the last year for the American armies in France and to a certain extent, at home, the latter being also to all practical purposes an unusual opportunity which may well be classed with export.

This market has been now cut off to a large extent and the industries have to rely again on their domestic market as the main place to dispose of their products, but the American domestic market while possessing a tremendous purchasing power in normal times, is now and then subject to wide fluctuations and even to a good deal of nervous fits. It is easily upset, especially by domestic conditions, and that is what should be carefully borne in mind.

We have here certain basic industries, the prosperity of which immediately affects the state of business in the whole country. At the very foundation of our natural life lies our agriculture, both foodstuffs and cotton. The latter will probably remain on the throne for quite some time yet because all stocks of cotton goods all over the world have been materially depleted by the shortages and excessive wear of the years of war, and there are only two other countries the volume of production of which could be placed in the same front rank as that of the United States.

As regards foodstuffs, however, it is very difficult to say whether the farmer will be prosperous or not. The Government guaranteed to the farmers a certain high price for wheat, which is today about a dollar above the market price. It is true that the Government will undoubtedly stand by its guaranty and reimburse the farmer for his losses, but the billion and a quarter dollars that will have to be paid to the farmers will come out, not of some magic box or hidden reserves in the Treasury Department, but out of the pockets

of tax-payers of whom the farmers themselves represent a very respectable part, so that really the farmer will pay part of the Government's guaranty on wheat to himself; which is a rather slim foundation for the prosperity of a great industry.

The other industries which lie at the foundation of our prosperity are the steel industry, mining, the production of automobiles and the larger manufactures. All of these industries in one way or another depend, however, on the public utilities. The railroads represent not only the greatest purchaser of the products of the steel industry but also a tool, the handling of which will affect the industry in innumerable ways. An industry such as steel and iron implies such a vast amount of ton-miles of transportation that any disturbance in the efficiency of our railroads would immediately affect most seriously the productive capacity of the mills.

The same applies to the automobile industry. Centered as it is in two or three cities in the Middle West, this industry is most vitally dependent on the railroads. Every bit of the raw products and parts that go into the manufacture of automobiles is to be brought in some way into, let us say, Detroit, Toledo, and Cleveland, and the cars when manufactured have to be taken from these cities and distributed all over the country. It is true that during the war a certain limited number of cars have been driven out under their own power but the cost of such a performance would be absolutely prohibitive for normal business.

It is easy to see that under these conditions the unsettlement and uncertainty which will inevitably be brought about by the passage of public utilities into Government ownership would most materially affect the industries. This might occur in several different ways and would operate at the same time from all of these angles.

In the first place, as has already been explained in another chapter, Government ownership would for a time make investment capital more timid than it has ever been before. Government ownership of public utilities on such a vast scale as would have been adopted in this country is a thing so novel and to such an extent untried that capital would most likely want to see how this would work out before it would dare commit itself to important investments.

Further, while Government ownership can be introduced by a few legislative acts, it would take many years until the final obligations emanating from these acts would be straightened out. In the meantime the value of railroad securities would be cloaked with

a considerable amount of uncertainty, which again would act in a depressing manner both on the investment market and on business generally.

To this should be added the fact that Government ownership involves not only the legal change in the control of the rails but what is far more important, profound changes in the operation of the transportation system. The Government has already shown that one of its schemes of operation would be so-called rerouting of goods, which means concentration of traffic by artificial methods along certain arteries and a comparative neglect of other lines now in existence. Such a neglect, however, cannot be put into effect without producing a depression in the economic life of those sections of the country which would be in this manner deprived of their present means of transportation, and the life of all sections of the country is now so closely bound together that bad business in one place very rapidly affects every other section of the Union. It should be remembered that even fifty years ago when the economic relations of the various parts of the country were not as close as they are today, a fire which devastated the city of Chicago caused one of the worst panics in New York and Philadelphia. The same must necessarily happen today and until this process has been entirely completed and until the country has learned the worst that can be expected of Government management of public utilities, there will be a great and justifiable timidity on the part of the investment capital.

In addition to that, certain great branches of our industry will be for years practically taken out of the hands of their owners. For example, the Kalawassa Steel Company has been making rails, beams, structural and bridge material. It has been selling to about ten railroads and while there was always the possibility that it might lose the trade of one or two of its customers, there was extremely little likelihood that all the railroads at once would find it undesirable to deal with that particular concern. It has been making its products in the best way that it knows how, and while it may not have been the best steel company in America, it certainly was as good, honest, efficient, and reasonable in its prices as could be demanded. The stockholders were satisfied with their dividends and even willing, if an opportunity offered itself, to increase the plant and production of the company.

With Government ownership the situation changes however entirely. Instead of having ten customers, the Kalawassa Steel Com-

pany has suddenly become confronted with the fact that it has only one customer, and not only that, but it has the only customer in existence in the country, so that if this customer should refuse to deal with it, the company would be absolutely ruined and might just as well close its doors.

Moreover, when the Kalawassa Steel Company was dealing with private railroads, all it had to consider was the specification of the goods, terms of delivery, and prices. Now, it may be that the same factors will determine the sale of rails and other material to the railroads, but again it may not, and there is a lurking suspicion that perhaps the politics of the Kalawassa management or the location of the plant in a safe or doubtful political district may affect the amount of orders which the Kalawassa would get. Experience during the course of the war has shown that such things are at least possible. Thus at a time when presumably the Government was looking for every expert in aeronautics in order to start the construction of its air fleet, huge orders went out to concerns who have never built any planes and who had to learn the business from the bottom up, while smaller concerns who have been in the business for years and who have collected considerable amounts of valuable experience not found in books, have been entirely neglected.

The way the Government gives out its order is a matter which nobody can predict. It is not claimed here that the Government will necessarily decide the distribution of its business on exclusively political grounds, but there is such a possibility, or at least the possibility of such a course is admitted by the average business man, and here again until the entire policy of the Government with respect to the industries which would be indirectly controlled through ownership of public utilities becomes clear, there is likely to be a considerable amount of business uncertainty and stagnation, especially dangerous at the present time when the future is more uncertain than it has ever been since the close of the Civil War.

Finally, the political outlook which Government ownership of public utilities creates is also by no means promising. Business has never trusted and cannot trust social revolutions until these revolutions run the whole course and until it becomes perfectly clear what their outcome will be. It is an old saying that if there is anything more timid than a million dollars it is two million dollars, and this saying carries with it a wise philosophy. A million dollars or any large amount of money is somewhat like an elephant. A dog never has to test the strength of a bridge on which it crosses the

river because any bridge in the dog's experience will carry him. The case is very different with an elephant, who knows that unless the bridge is really good and strong it will break under his tremendous weight. The same is with capital. Capital is extremely easy to invest, meaning by that term, to spend for some purpose promising financial returns, but it is often difficult to withdraw it once it is invested, and therefore capital is and has to be extremely careful as to where it goes.

Now, there are certain elements in every business situation which can be taken into consideration and there are others which it is practically impossible to measure. When capital goes into a certain business, one can predetermine with a reasonable amount of certainty the conditions surrounding the investment within the bounds of the industry itself. Thus it is possible to determine more or less the demand for the products of a given industry and the extent to which they are already satisfied by the existing plants. What it is impossible to determine, however, is the general conditions of the market, and whenever there is a chance that these conditions may be upset in a fundamental manner, investment capital becomes extremely shy.

At the same time, is there a greater disturbing element possible than the prospective change from a free democratic country, the whole industrial and economic life of which is based on the free initiative of the individual, with if anything, rather insufficient regulation, to a country in which the central government will be given powers that even the governments of the most autocratic countries have seldom possessed, and where private initiative in practically every line of the industries will be replaced not even by strict Government regulation but to all practical purposes by the discretionary power of a few officers?

At best this represents a leap into the dark, and, as has been shown in this book, Government ownership may easily imply a radical transformation not only in the industrial but also in the political structure of the nation, with perhaps even what may amount to a total abolition of the most fundamental feature of our body politic, namely, the division of the country into the States and a union of the States through the Federal Government.

The labor conditions will also be tremendously disturbed by the introduction of Government ownership, and this coming on top of the general uncertainty of the business and political prospects of the present moment, will undoubtedly lead to a profound business

depression which may last until either the fear of Government ownership of public utilities is removed or until Government ownership of public utilities has shown itself to be efficient, impartial and free from those political evils which it is feared may develop as a sequence to its introduction.

Considering everything, it would appear therefore that even if there should be good reasons for adopting Government ownership of public utilities in the United States, this is certainly one of the poorest times at which it could be applied; poorest from two points of view:— In the first place, because it will upset the business of the country at a time when there are quite enough disturbing influences without it, and in the second place, because being introduced under such conditions, the Government ownership does not really have a fair chance to show what it can do. To use a homely comparison, Government ownership introduced today would be like playing before an audience in a theatre in which water is leaking through the ceiling. However good the actors may be, some of the audience will leave before the play is over, and the other part of the audience will probably be more interested in protecting their gowns and heads from water drops coming from above than in enjoying the performance on the stage.

In fact, it is by no means clear why the advocates of Government ownership of public utilities have selected this extremely unpropitious period for their reform, unless they believe that it is only while the country is still stunned by the impressions of the past war and has not yet recovered its breath from the strict regulations of military administration that it is possible at all to hope that such a reform could be carried through to adoption.

CHAPTER XVI

THE FIVE-YEAR TEST PERIOD

One of the suggestions made by former Director-General of Railroads, William G. McAdoo, was to the effect that the present control of railroads which in accordance with the resolution of the Congress should expire 21 months after the war, be extended for a period of five more years, so as to give a chance to test out the system of Government ownership of railroads. Such a proposal is neither right nor legal. We shall speak of its legality first. The Government control of railroads during the war is of unquestioned legality. It is a principle recognized throughout the world that in times of war when presumably the very existence of the country is at stake all property rights of individual citizens, in fact, the very life of the citizens must be considered subsidiary to the main purpose of winning the war. In such times the Government has a right to take over any property that it needs for the prosecution of the war, and the question of compensation does not come up until the country is ready for it. Because of this, Congress had a right to give the President power to take over the railroads. The question is, however, entirely different in times of peace. Under the law of eminent domain the United States has the right to take on due compensation the property of citizens, but the law of eminent domain presupposes in the first place that this property is actually needed for the benefit of the people and that its need has been definitely established. If the Government should wish to take over the railroad property merely to test out the advisability of final ownership of railroads, it would thereby recognize by its own confession that the need for this property has not yet been established, which would make the entire transaction entirely illegal.

In the next place, the Government cannot compel the owner of the property to surrender the property to the Government for a certain limited time. Under the law of eminent domain the Government has the right to acquire property for its own use, but it cannot compel a citizen to surrender the property for a period of two or three years and then to take the property back, or even should this right be ad-

mitted, the Government would have to pay to the citizen not only rent for the time during which the property was taken over, but also compensation for all losses and depreciation of the property during the period of its tenure by the Government. Here again only peace times and not war times are considered.

Thus in peace times the Government cannot under the law of eminent domain compel, for example, the owners to lease to it a floor in the Equitable Building in New York, even though it might, under the law of eminent domain, take over the entire building and pay for it. Likewise the Government has the right under the law of eminent domain to purchase the stocks and bonds of all the railroad companies now in existence in the United States of America, but in peace times it cannot force the owners of the railroads to surrender their rights in their properties for a period of five years.

In fact, all that a shareholder would have to do would be to apply to the courts, which would prevent the Government from interfering with his property rights.

The great trouble at present is that the country has been so vigorously impressed with the exceptionally great powers which the Government justly had during the war, that only few people stop to think about the equally great limitations on the powers of the Government in times of peace.

The question of legality of the five year test period is, however, entirely subsidiary to that of its expediency. From this point of view it should be clearly understood that one cannot really sincerely talk about a five year "test" period because there is no doubt whatsoever that if Government ownership is continued for a period of five years, it will be continued indefinitely thereafter. We are dealing here with hard facts and mincing words is a rather inadequate proceeding. In five years the central government — having control of the railroads and waterways, of the two billion dollar merchant marine, and indirectly of all the basic industries of the country, will build up such a political machine that the country will be entirely unable to unseat it for all times to come.

In his plea for a five year test period Mr. McAdoo stated that if the matter is left open until 1920 it will vitally affect the Presidential elections of that year. What Mr. McAdoo did not say, however, is that it is quite likely that any party that would make Government ownership an issue in the next Presidential elections would be decisively beaten at the polls. Even adherents of Government ownership cannot claim that the country has made up its mind as to its

advisability. The adherents of Government ownership, however, do not mind making an issue of it in 1924, and the five year test period amounts just to this. The point is that while the country has not made up its mind about Government ownership now, and may possibly make up its mind against it by 1920, if the Government is allowed to maintain its control of the railroads and what it implies, the central government will help the country to make up its mind by 1920, or rather will be placed in a position to secure enough votes not to care at all about the opinion of the country. The five year test period will mean that the central administration will secure such an economic control of business as to make the issue absolutely certain, and that means that the matter of test period should be considered with as much care as the matter of final Government ownership.

In fact, the argument for the extension of Government ownership for a period of five years is of a rather peculiar nature. According to Mr. McAdoo and his followers the country has a right to know whether Government ownership of public utilities would be better than private ownership. In the first place, the country has never exhibited any burning desire to have Government ownership tested. The opinions of the country may be largely judged by its press, and so far the only newspapers which have stood for Government ownership are the Hearst papers, which have, however, stood also for a good many other freak social plans and which, especially in the last three years, could not be considered as representative of the best trends of national thought. Outside of them, and a small group of politicians in the Federal Government, nobody has exhibited any special desire to test it out, and the President himself frankly stated that he has by no means made up his mind as to its advisability. In any event, it would appear more reasonable before testing Government ownership, to give an honest chance to private railroads to show what they can do. We may say without reservation that the Government and Congress have never yet honestly given the railroads such a chance. If private railroads did half of what the Federal Government has found itself obliged to do as soon as it took over the railroads, every president of every railroad would have been indicted under the Sherman Law. When the railroads during the war in Europe applied to the Interstate Commerce Commission for very moderate increases in freight rates, their applications were treated as sort of hold-ups, uniformly reduced and in some cases entirely refused. The moment the Government took over the railroads, it boosted both passenger and freight rates to an extent far beyond

what the private companies ever dared ask for or indeed found necessary. Before we test out Government ownership, we ought to make a frank and honest test of private ownership if only because basically Government ownership is only a remedy for conditions which cannot be corrected otherwise. The tremendous wealth and prosperity of this Commonwealth has been built up by private initiative with only the most necessary interference by the Government, and besides, speaking frankly, no political administration has ever enjoyed the absolute confidence of the people in regard to its disinterestedness and business efficiency, no matter to what party such a political administration belonged. We see further that the countries where Government ownership has been pushed very far have usually carried with it political ills of which we here have been free and which we do not wish to appear on American soil. It is significant that Germany, Austria and Russia, politically the most backward countries, went farthest in the way of Government ownership of public utilities, while England and the United States, the most democratic countries, have been practically devoid of Government-owned utilities, with the exception of the mails.

There is another consideration which may affect the decision as to the five year test period. Our railroads are now in a very unsatisfactory physical state and need an expenditure of huge amounts of money for their improvements. In fact, it would be no exaggeration to say that in order to bring the railroads to the state in which they would be capable of efficiently handling the traffic of the country, between five and six billions of dollars will have to be spent in the next five years. This amount is entirely too large to be entrusted to the Government to spend, as explained already in the chapter on the Railroads and the Pork Barrel. In addition to that, a very important question presents itself as to who should be responsible for this money in case after the five year test period the country should decide to return the railroads to the private companies. It is certain that the private companies would have a perfect right to refuse to accept the responsibility for such expenditures. It would be absolutely contrary to the American view of property rights and to the Constitutional provisions defending it, to permit the Government to take the railroads away from their owners practically by force under the law of eminent domain, to spend on them five billion dollars without the consent of the owners, and possibly in ways of which the owners would not approve, and then to force the owners to assume the responsibility for this money. No courts could be found in the country

who would enforce it and therefore it is quite likely that the country might have to pay five billion dollars for the mere sake of giving Mr. William G. McAdoo and his associates a chance to find out whether they are right or wrong in their economic views.

The subject of responsibility of the railroads for expenditures made on the lines during the period of Government ownership may be compared to the following case. Suppose that the Government under the law of eminent domain took over the Equitable Building in New York and installed its offices therein. In order to make the work of the stenographers and clerks pleasanter and to give jobs to some deserving Democrats or Republicrats, the administration hired artists and had the ceilings of all the buildings decorated with Cupids and hearts pierced by arrows, at the cost of say, a million dollars; then after a lapse of five years it returned the building to the company that owns it but asked the company to pay the bills of the artists, claiming that it has made improvements in the building.

There is scarcely any doubt that any court in the land would decide that since the building was taken from the company without the consent of the company and since the expenditures made were likewise without the consent of the company, the company could not be held responsible for them, especially as the painting of Cupids on the ceilings of a business office may not be considered exactly in the character of an improvement.

It is likewise very doubtful whether any court would consent to charging to the railroad companies improvements made by the Government without their consent, especially if the improvements were of the same character as some of our waterways and harbor improvements, such as dredging to a 12-ft. gage a creek which has not got enough water for rowboat navigation. It appears therefore that ultimately a five year test period would mean one of two things; either absolute stagnation in the improvement of railroads, which would be one of the worst things that can happen to the American industries, or making all improvements in the railroads to the tune of about five billion dollars at the cost of the taxpayer and then giving them as a present to the companies in case the roads had to be returned ultimately to private ownership. It is believed that this is a matter which should be definitely settled before the question of Government or private management for a test period of five years is decided.

CHAPTER XVII

IF NOT GOVERNMENT OWNERSHIP, WHAT THEN?

In his telegram referred to in another chapter, Mr. William G. McAdoo appears to oppose Government ownership to cut-throat competition among railroads. This is not a true statement of the case and is probably due to the hurry incident to a telegraphic message. As a matter of fact the railroads are not looking forward to an era of cut-throat competition, and indeed realize more and more that competition among railroads is a thing which is good neither for them nor for the country.

Railroads primarily exist not for their own benefit but in order to supply the country with means of transportation. This is why they have been given special privileges, such as the right of condemnation of property, and why they have been placed in what amounts to practically a monopolistic position. If the railroad system were worked out perfectly there would have been a line everywhere where there is enough freight or passengers to be moved toward its destination, and on the other hand, there would have been just enough railroads to provide for the natural expansion of the country's business. In other words, every railroad would have been working to about 85 per cent of its capacity, providing sufficient reserve for emergencies and giving ideal conditions of operation.

Unfortunately, no country has built up its railroad system with a full understanding of either the importance of roads or the part which they play in the life of the country. Speculative considerations rather than those of service to national interests have largely governed the location of our lines, with the result that in the early days as soon as a line began to pay and show promises of future, another line was established paralleling it in the hope of taking away at least a part of its business. This naturally led to competition which often assumed the most strenuous form of cut-throat fight and was made possible by the practically absolute absence of any regulation on the part of the State and Federal authorities.

These days have, however, practically gone forever. In the last score of years very few lines have been built with a view of taking

away business from existing roads, while the existing lines have been in business long enough to have fully demonstrated their possibilities, or in some instances, impossibilities. A certain amount of natural gravitation of traffic to each line has been created and it would be safe to say that about 60 to 70 per cent of the business of each road can be kept by that road even if it abolished entirely every effort at solicitation of business, and simply maintained decent conditions of transportation. It is only in the remaining 30 or 40 per cent of business, both passenger and freight, that there are possibilities of shifting from one road to another, and even there it is mainly the service given by the road that decides the passengers or shippers in the matter of their preferences.

In addition to this, rates are now practically uniform all over the country, and the prohibition of rebates makes it very difficult for one road to offer to a shipper inducements which another road cannot meet. It is possible that there are certain cases where such inducements may still be offered but the volume of business secured by cut-throat competition methods between roads today is so insignificant as to be practically negligible.

It is *service mainly* that counts, and competition, even cut-throat competition in the matter of service is on the whole highly beneficial to the country. In fact, one reason for opposition to Government ownership is that it would have no incentive to improve its service as would private roads under the lash of competition.

The roads face today two sets of problems. In the first place, Government ownership while it lasted has been largely, probably deliberately directed towards destroying the individuality of the roads. Traffic has been artificially deflected to ways in which it has never gone. Advertising by the roads has been discontinued under orders by the Government, and good will created by the vigorous and honest efforts of years, destroyed. The ticket offices and freight offices have been consolidated by the Government and an effort was made to impress on the minds of the public that one road is just as good as another. As a result, the roads in their business policies will have to start, if returned to private ownership, just where they left off some ten years ago at the time when the new policies went into force.

Further, the physical state of the roads has been changed. Under Government management and because of the war conditions, a tremendous amount of freight and war material, including men, has been hauled, and it does not appear that adequate care was

taken either to see that this traffic was moved only on roads that could stand it or that the roads were brought back into their original condition. In investigating the accident near South Islet, Long Island, on the Long Island Railroad where a troop train was wrecked through the breakage of a rail, the engineers of the Interstate Commerce Commission reported that the rails which have been on the road for nearly twenty years were defective even at the time when they were delivered by the rolling mill. The traffic on the road, however, was so light and the weight of the trains so small that the rail could have probably remained without causing any trouble for quite a long time, but the establishment of a camp in the neighborhood caused such a great increase of traffic that the rail broke under the strain, with the result of a train being wrecked and several men in the National Army killed. This is but one illustration of what has been happening practically all over the country, though fortunately but seldom with equally disastrous results, at least for the present.

The policy of the Government has been to concentrate the traffic as far as possible over certain lines. This had the result that lines which were built and operated under far less strenuous conditions, have been during the war period loaded to capacity and sometimes apparently even over-loaded, while other lines were neglected. Any one who is familiar with railroad operation knows that such conditions are apt to act equally destructively both on the roads worked to the limit and on those worked far below their capacity. The roads will rapidly deteriorate under such conditions and will need a vast amount of capital and work to be brought into their original condition. We have not had any experience with such traffic conditions before the war in this country, but the experience of the Russo-Japanese War in Russia has shown what it leads to.

It may be stated safely, though this is not found in text books, that any road operated for a considerable length of time below 50 per cent of its capacity, or above 85 per cent will rapidly deteriorate unless a special effort is made to maintain it in good condition, and that is just the way in which the roads were operated by the Government practically throughout the country. The Government if forced to return the roads today will give them back in a much poorer physical and business condition than they were when it has taken them over.

In addition to this comes the question of railroad financing. Before the Government took the railroads over, the investing public had

a fairly clear idea as to the financial position of the various roads, and while it did make mistakes from time to time, the general outline was pretty well established. There were roads that could secure practically any amount of capital within reason if not interfered with too much by outside conditions. There were likewise roads that could not find a cent at any price, and there were companies occupying various positions between these two extremes. On the whole, however, about one-half of the mileage of the country was held by companies in good financial standing and managed by men enjoying the confidence of the business community, though even before the war, the general financial position of the railroads was extremely poor, largely because the system of State and Government regulation of the affairs of the roads was marked by an ignorance of the true relations between the railroads and the industries of the country and by a survival of that spirit of enmity towards corporations which marked the beginning of the 20th century.

It was generally believed, however, that if the railroads could get a square deal from the Government and the public they would have been in a position to raise all the money necessary for those improvements without which they could not carry on their business.

But of late the situation has changed most profoundly. The only two markets which the railroads had for the placing of their securities on a large scale have been shut off from them. Europe which was always willing to take at a reasonable price securities of good American roads, has had such a stupendous drain on its investing capacity in the last four years that it may be practically counted out as far as American securities are concerned, not only because there is little capital available for investment left there, but because taxes and possible Government regulation of the investment market will prevent them from sending substantial amounts of capital abroad.

The home market has been likewise closed for a time to railroad investment. The tremendous Liberty Loan drives, of which one more is coming, have been pushed in such a manner as to fill every crevice available in the investment structure of the country. It is true that careful students of the investment market are inclined to believe that Liberty Bonds may form a basis for a great demand for good securities. They have taught the value of investing money in good securities to classes which never knew of the existence of such securities, and when the lesson has had time to sink in really deeply, and when, which is far more important, the people had time to accumulate new capital for investment, it may be expected that railroads, among others, will

profit by these new conditions. The trouble, however, is that all of this will necessarily take a considerable amount of time, and for the next few years the Liberty Bonds will serve as a barrier to the placing of new securities.

Between these two facts the railroads face therefore a condition where on one side their business organization has been largely ruined, the good-will killed, the physical plant weakened, and an insistent demand for an immediate employment of very large capital created and on the other hand, no capital is available unless the roads are assisted in getting it by some outside agency. It would be therefore by no means an exaggeration to say that if the roads are today returned to private ownership by a simple rescission of the Presidential proclamation and without an extensive program of legislative and financial measures to improve the condition of the roads and their relations to the public and the Government, at least half of the mileage of the country, and among it some belonging to the best managed companies in the country, would be in receivership within a period of less than six months. That such a state of things would be most disastrous to the interests of the country need hardly be explained, especially in the presence of the spectre of unemployment already stalking through the land.

All that the roads need is a square deal and reasonable assistance, the latter being made imperative by the fact that the business of the roads has been forcibly taken out of their hands and carried on under conditions of exceptional severity.

While probably no fair-minded person will deny the truth of the above statement, the question as to what constitutes fair treatment of the roads and reasonable assistance, and still more important, in what form these two requirements can be best satisfied, is one which admits of many answers, based partly upon the personal experiences of the authors and partly upon the ultimate goal which they may have in mind.

The program presented in the following chapter is therefore one offered simply as a possible answer, without the claim that it is either the only answer or even the best.

CHAPTER XVIII

GOVERNMENT REGULATION OF PUBLIC UTILITIES, HOW IT CAN BE DONE

At present two agencies have the right of Government regulation of public utilities, the Federal Government and the States, and as has been explained elsewhere, unless a Constitutional amendment to that effect should be carried, the two will have to continue, as both are based on recognized and undeniable rights of their respective sovereign bodies.

It would be therefore desirable in the new system of regulation to effect such an organization as would bring regulation by the Federal Government in close coöperation with that by the various States of the Union.

With this in view it is proposed to divide the entire country into, say, six districts, in as far as possible organized in such a manner as to constitute real industrial and economic units. The limits of the districts should be so selected that as large as possible a share of the traffic of the roads in each district should lie within its own limits.

Each district should be governed in railroad affairs by a sort of Public Utilities House of Congress, consisting of representatives of the public utility commissions of each state in the district, representatives of the roads and of important organizations of shippers, with a chairman appointed by the Federal Government, or by the President. The district committee would then consist roughly of from 60 to 100 persons, all of whom would be presumably experts in matters of transportation and industrial development, and would handle mostly matters affecting their immediate neighborhood.

The proceedings of such a body would be absolutely open to the public and would naturally attract a large amount of attention on the part of the people and the local press. All matters of regulation within the district would be handled by this district board either as a body or through its appointed committees, the chairman giving the Federal Government a voice in the affairs of each district consistent with the dignity of the central authority.

In this way matters affecting each district only could be settled

right on the spot by men knowing local conditions and representing all sides of the question. Since, furthermore, all work of the board, both open meetings and committees, would be absolutely open to the public, no secret meetings or confidential documents being permitted, the questions would be thrashed out in the open and the weight of public opinion would keep the parties on the right track.

The representation of the States comprising the district in the district board would insure the acceptance of its decisions by the States within reason, that is, no State would absolutely surrender its sovereignty to the district board, but the weight of opinion of the district board and of the States represented therein would in the vast majority of cases help the formal adoption of the decisions of the district board by the governing bodies of the States composing it where such a formal action is necessary.

Matters affecting two contiguous districts could be handled by conferences between boards either as plenary bodies or through special committees appointed by them, while matters affecting the entire country or more than two districts, such as transcontinental transportation, relations between the roads and the Federal Government, etc., would be handled by a Federal body corresponding to the present Interstate Commerce Commission and consisting of the six chairmen of the district boards, with a chairman of the Federal Commission appointed by the president in the usual manner. In this way the central commission would consist of men thoroughly familiar not only with conditions in every district but with the various views held therein, so that the central body would in the fullest sense of the term represent the transportation opinion of the country.

While this is only a bare outline of the scheme, it would appear that such an arrangement would make possible the fullest degree of co-operation between the public, the shippers, the States of the Union and the Federal Government.

Another matter of the greatest importance is that of the basis for treating the railroads.

What, after all, constitutes fair treatment of the roads? It is said that such a question cannot be determined without a complete physical valuation of the roads, which may, however, take many years before it is completed. It is true that if we had such a valuation we could with fair certainty decide what should be the absolutely just rates for every line. We are, however, faced not with a theory but with a condition, and that is that in order to continue and advance the development of the industries of the country, we need the roads

to transport goods and passengers in an adequate and efficient manner, and while we have roads, we know perfectly well that they are incapable to deliver that service on which the economic progress of the country depends.

The *only basis* from which roads should be considered is that of enabling them to deliver that service to the country for the purpose of which they have been created.

To do this it would appear to be a simple though not perfect plan to employ the same district organization that has been proposed above. This plan involves the consideration of the roads not as corporate units but as physical tools. If the Pennsylvania or the New York Central companies have lines lying within three or four districts, these lines would be treated as entirely independent units, notwithstanding the fact that they may belong to one company. In fact, it may ultimately prove desirable to insist upon some form of corporate organization which would indicate the division of the transportation systems into their respective districts.

Within each district a rapid survey can be made at a comparatively small cost and in a comparatively short time, sufficient to give a clear idea as to the physical state of the lines. Sufficient statistical data are already in the hands of the Interstate Commerce Commission and the companies to determine the amount of freight carried by the lines, and business conditions locally would show to what extent the lines have been able to handle the business in existence or in immediate prospect.

On the basis of these data, neither of which are assumed to be exhaustive or absolutely comprehensive, it would be perfectly possible to determine the immediate needs of the transportation system treated as a whole in each individual district, while a similar work carried out by the central body would rapidly indicate what further improvements are necessary to handle long-distance hauls and transcontinental traffic.

The roads in each district would then be treated as complete units and the district board would face the problem of what to do, not with the Pennsylvania or the New York Central, but with the transportation system in the State of Rhode Island or the State of Indiana.

In this way it might be found that the Eastern section of a State (which we may call Kalawassa) has all the roads that it apparently needs, while the Western end of that State represents a picture of congested traffic, delayed deliveries, etc. It would therefore appear clear that the Eastern end does not need for the present any assistance

while the Western end does need it. But in the Western end there are two roads, the X & Y and the Red Mountain. Under the laws which have existed before the war, the X & Y and Red Mountain, while both overloaded, were expected nevertheless to compete for traffic, which meant that even though the Red Mountain could not carry it, it was still under the law bound to try and take away traffic from the X & Y. In this way the two roads were forced into competition for which there was neither need nor reason. Likewise the two roads were not permitted to combine in any way to jointly handle the increased traffic.

Under the new arrangement, the district board would endeavor so to combine the business carried by the X & Y and Red Mountain as to increase their joint transportation facilities. This might be done in various ways, for example, the two might be permitted to construct joint relief or feeder lines which would permit a more economical handling of traffic. Terminal facilities might be pooled or new handling facilities established for the joint use of the roads.

In this way the transportation net in each district would be developed primarily, not from the point of view of each individual line but on the basis of the consideration of the needs of the district, which by the way, would automatically solve the problem of water carriers, since wherever the water carriers could relieve traffic congestion they would be permitted to do so under a system worked out in each case by the district board in such a manner as to help the traffic needs of the district without injuring the railroads.

The question of financing the new improvements could be solved in the following manner. As matters stand now the railroads cannot raise enough capital to finance their own improvements. The district board could help them in several ways. In the first place, the district board might permit to finance certain improvements jointly by more than one railroad, which would give an important supplementary guaranty to the securities. Further, through the district board the States might pledge their credit in part or in full to help out the railroads and finally the district boards, might bring the matter up before the Federal Commission which would then arrange for similar assistance on the part of the Federal Government. Finally, a combination of any two or all of these methods could be employed depending on the merits of the case, the amount of capital involved and the more or less local or national importance of the project. The main thing at present is not so much to determine how each individual

case may be handled as to establish a machinery powerful enough and flexible enough to handle all cases on their merits.

It is obvious that the basis for any system involving assistance to the railroads on the part of either State or Federal Governments must be such as to make capital available to the railroads where they cannot get it on their own credit, and at the same time still preserve an incentive for the roads to try and do without federal aid, because if the railroads are left under private management and still placed in a position where they would have to rely on outside assistance for all their improvements, their plight would be slightly better than under straight Government ownership.

It would appear that a good way to solve this problem would be to limit the dividends of any road which has received financial assistance from the Federal or State Governments while the obligation still remains uncanceled, to a comparatively low figure, say, 4 per cent or not more than 5 per cent of the outstanding stock. Since well-managed lines if properly treated by the Federal and State Government in the matters of rate regulation can easily make more than this amount, there would be an incentive for the railroad management to issue their own securities and cancel their debts to the Government at the first opportunity, so as to be able to resume regular dividends to stockholders. On the other hand, this would also help the Federal Government by rapidly reducing its obligations on the railroad account.

The question of wages could be solved in a somewhat similar manner. The men operating the railroads are entitled to a wage which should represent two elements, of which the first is a so-called living wage or enough money to maintain a proper standard of living for a man employed in that particular kind of work. Thus, a signalman would have to receive enough to be enabled to live as well as the average workman in his district employed in an occupation requiring the mental and physical qualifications which a signalman has to have, with perhaps a little more so as to attract the best class of labor to the responsible jobs in the transportation system. A locomotive engineer is a man of higher training and education than a signalman and therefore would be entitled to a correspondingly higher living wage. The living wage considered in the above manner is an absolute minimum that a railroad employee should have and it would be the duty of the district board to see that no railroad is permitted to operate in its region which does not pay to its employees, no matter how lowly, proper living wages.

In addition to that, the employees should at least to a certain extent share in the profits of the concern. There may be a tendency, especially at present, when the question of Government ownership may come to a vote, to promise to railroad employees a larger share than they are entitled to, so as to counteract the promises of high wages on the part of the Federal Government. Either of the two schemes, however, is nothing but a political bribe unless the profit sharing in private companies or the high wages paid by the Government are justified by the economic conditions of the country and the conditions of operation of the railroads. Railroad labor would be in the long run far better off if they received only a decent wage and not a concealed bribe for their political vote.

The participation of railroad labor in the profits of the companies is unquestionably justifiable and should be established, but it should not be forgotten that all railroad profits, whether to labor or capital, come out of the pockets of the country, represent nothing but an indirect tax on the industries and the very life of the nation, and therefore should be maintained within reasonable limits.

A basis for the determination of wages and profits is comparatively simple, though requiring a rather careful handling.

Each district should have what may be called a coefficient of operation of capital. It is obvious that a million dollars invested in transportation facilities in the State of Rhode Island will bring in a larger volume of traffic than a similar million dollars invested in the railroads in the State of Arizona, because of the different conditions of economic development. Further, a million dollars in bonds paying 5 per cent dividend and having a preference over all other payments is entitled to a different return than a million dollars in common stock, so that a company which has 50 million dollars in common stock and 50 million dollars in bonds is entitled to a different return to its shareholders than a company which has 5 million dollars in stock and 95 million dollars in bonds. Further, a company which has been able to finance its extensions by its own effort is again entitled to a different return than a company which has received assistance from the State or Federal Government. Because of this it would be perfectly feasible to work out a formula for each district which would show the minimum returns to which the stocks of the companies operated in each of these districts are entitled. This minimum return should go to the stockholders of the companies in the same manner as the living wage goes to the labor, and the rates in each district should be worked out so as to cover liberally

the operating expenses without stunting the railroads or reducing them to various uneconomical shifts, and to give an equitable return on capital according to the formula above referred to, as well as a living wage to labor. It will be found that the weakest roads will receive practically only that much. The stronger roads will, however, get a good deal more because of their higher efficiency of operation, or perhaps because of their better location. The extra profits of these stronger roads should go partly to capital and partly to labor, with that distinction, however, that the share which goes to capital would be divided among the stockholders of that company only, while the share that goes to labor would be divided not among the employees of the stronger company exclusively, but partly go into a common district fund and be divided among all employees.

A little example may illustrate how it is proposed to operate such a scheme. The X & Y Company has made an extra profit of say 10 million dollars. Out of this profit the stockholders received say, two-thirds or \$6,666,666, while the labor receives one-third or \$3,333,334. Out of this amount the employees of the X & Y Company receive one-half or \$1,666,667 while the other half goes into a joint fund for the employees of the local district to be divided equally among all. Hence, the employees of the X & Y Company will receive a little more than one-sixth of the extra profits of the company, that is the one-half of the one-third that comes to them directly, and their share out of the common fund. They would therefore have a particular incentive to work well for their railroad.

It might be further advisable to modify this scheme, at least in certain instances, in the following way. The additional money that comes from the district fund should be given out not each month but every three or six months in large lumps to enable railroaders to meet large expenditures which cannot be usually met out of their weekly or monthly wages, and thus free them of the curse of usurers and installment sharks. On the other hand, the large sums given out directly to labor from their own companies (that means, the $\frac{1}{3}$ of the extra profits), should be given to them only partly, say, 50 per cent, while the other part should go into a special fund and act as a sort of insurance fund, so that a man after having worked on the railroad for a certain number of years would have quite a large sum saved for him to take care of him in his old age.

There are several similar modifications of this scheme possible and it is believed that it has the advantage of both equalizing to a certain extent the wages in a certain district and still providing an

incentive for the men to care for the interests of their own company, and what is still more important, to stick to their jobs with well-managed and profitable companies.

The above brief outline of a possible scheme of operation of railroads under private ownership but with Government regulation has been offered not so much as a working scheme which should be adopted as a whole, but simply as an illustration of the possibility of working out a plan under which public utilities could be treated fairly both to themselves and to the best interests of the country, and still remain under private ownership.

CHAPTER XIX

GOVERNMENT OWNERSHIP OF TELEGRAPHS AND TELEPHONES

By far the largest part of the present book has been devoted to the discussion of government ownership of railroads, for two reasons. In the first place, the problem of rail ownership is by far the most important economic problem in the life of the nation, and in the second place because the interests involved in the matter of control of rail transportation are so great that they bring out with the greatest lucidity both the good and the bad features of the private and government systems of ownership.

Practically all the arguments made with respect to railroads apply to telegraphs and telephones, with a few additions, however, which will be discussed in the present chapter.

In a country like the United States of America, governed under a democratic system, the ownership of such means of communication as telegraphs and telephones is profoundly abhorrent to the spirit of our institutions because it gives the government power to obtain access to private and political secrets of citizens, and to make use of them for political party purposes.

It is true that the government already controls one of the most vital means of communication, *viz.*, the mails, but there is a basic difference between a letter and a telegram in that a letter is sent sealed. Therefore if an official of the government would cite the contents of a sealed letter in the course of a political dispute, he would lay himself open to prosecution, and would exhibit such a lack of respect for the legal rights of the people as would arouse the most wide-spread indignation.

The situation is, however, very different with a telegraphic or telephonic message. Such a message is transmitted in such a manner that the employees may have access to its contents, and the sender has to rely on their discretion for protection against misuse of their knowledge of what the message carried.

On the whole the private companies, both telephone and telegraph, have shown themselves to be highly reliable in this respect. There have been instances where messages have been communi-

cated to improper parties or where their knowledge has been used for improper purposes, but such instances have been very few, and there is no reason to believe that the management of the companies has been guilty of either instigating or even tolerating them when known.

Such wiretapping as has come to the knowledge of the public has in practically all cases been carried out, legally or otherwise, by police or officials of various kinds acting under authority which the private companies could not or would not dispute. The companies themselves, however, have uniformly shown a total lack of effort to make use for their own benefit of information which came to them in the course of their business.

It is a regrettable fact that the record of the government has been very different in this respect. Officials of the government, in the course of their political activities, have made wide use of information which they have secured exclusively through their connection with the national administration, and to which they would not have had access otherwise.

To cite but a few of recent instances. In a controversy with a member of the House of Representatives, the Controller of the Currency (Mr. J. S. Williams) has recently published an official letter of a highly confidential nature written by a bank examiner to the management of an institution with which that congressman was connected. The letter had absolutely nothing to do with the controversy between the Controller of the Currency and the gentleman in question, and was clearly given out merely for the purpose of discrediting the man who, rightly or wrongly, attacked the Controller. The vital fact is, however, that in this instance a high official of the government has made use for his personal benefit of official information of a strictly confidential nature to which no one but he had access.

Another case of a similar nature has also come up in the last few days. (Other instances were cited in the original draft of the book, but have been replaced by more recent cases.) A New York evening newspaper has been for several weeks vigorously attacking conditions at some of the rest camps in France. As an answer to these attacks the office of General Pershing published the records of a court-martial of an officer who has been connected with that particular paper before the war, and who was evidently believed to be responsible for the present attacks.

Whether the attacks made by the paper have been justified or not, has no connection with the present discussion. The sinister fact is that a high officer of the government found it possible to answer them by an attack on the personal character of a man whose very responsibility for the action of the newspaper has not been established, and used for this purpose information to which he had access only through his official position.

In words of as few syllables as possible, it comes to this. If the highest officials of the government deem it within their right to answer criticisms of the conduct of their offices by the publication of official and confidential information for blackening the characters of citizens, is it wise to give the government unrestricted access to the innermost secrets in the private and business life of every citizen in the land?

Unless laws are passed making the disclosure of such information a felony, and providing a machinery for the proper prosecution of such crimes, such a course would be very dangerous for the country. And even then there arises the danger of giving the party in power an important advantage in the matter of political elections.

It is obvious that, say, in a Presidential election the Demolican party which happens to be in power, would be much better off than the opposition. The party in power having control of telegraphs and telephones could use them freely, without fear that any information sent over the wires would leak out. On the other hand, the party out of power would work under the great handicap of having all its correspondence open to the other side, but not knowing anything that the other side is doing. It would be like playing with a man who can read your cards.

Furthermore, there can hardly be any doubt that the party in power would get better service over the wires than the opposition which in itself may be sufficient to decide a close election. The same would apply with still more force to the case of newspapers. With absolute control of telegraphs and telephones, the government could easily kill any newspaper which offended it, by giving it delayed service, garbling messages, and in the thousand and one ways in which it has been done in other countries where the government had that power. Government control of means of wire communication means government censorship over the news in fact if not in name, and a country with government censorship over its news cannot be a free country any more.

There are additional arguments applying to the case of wireless telegraphy and telephony, against government ownership. Notwithstanding the great progress made since Marconi caught the first faint message through the ether, the art is new, and still in the very infancy of its development. In fact, wireless telephony is barely out of the experimental stage, and even in wireless telegraphy such revolutionary developments as the Weagant system for the elimination of static disturbances are still possible which better than anything else indicates how little we know yet about the true physics of the propagation of ether waves and their true nature.

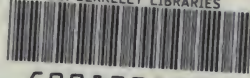
The great progress of wireless telegraphy has been due mainly to two facts. In the first place, it has been a very fascinating subject for experimenters which ranged from a twelve year boy with an installation costing five dollars to men like Peter Cooper-Hewitt with special laboratories and every facility of modern engineering at their command. In the second place, the private companies operating the wireless telegraph systems, have fully realized the importance of new developments, with the result that there is hardly a line of business today in which it is easier to sell a good invention than in wireless telegraphy. The continuation of the present system promises to place this country in the forefront of wireless engineering, and all those who have worked in the field agree that its applications promise to be so great that it would be no exaggeration to say that the day may come when, in ways of which we can now only guess, the life of the world will be governed through ethereal impulses.

Government ownership will at once eliminate from the field those many thousands of "experimenters" who may be a source of trouble to the commercial companies by way of jamming their messages sometimes, but who constitute the real army in training for the conquest of the unknown territory of radio knowledge. Government ownership will also largely close the way to the purchase of private patents, and hence make the work of American inventors less promising, and therefore less productive.

On the whole, in the field of wireless telegraphy and telephony Government ownership does not show any promise of bringing about a greater advancement of the art, and rather promises to retard the present lively development of it in this country.

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